

# 2024 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"/> CA Corporation no. <input type="checkbox"/> FEIN
California Secretary of State file number	

1 Total qualifying wages. See instructions . . . . .	<b>1</b>		00
2 Multiply line 1 by 10% (.10) . . . . .	<b>2</b>		00
3 Pass-through Prison Inmate Labor Credit(s) from Schedule K-1 (100S, 541, 565, or 568). See instructions . .	<b>3</b>		00
4 Total available Prison Inmate Labor Credit. Add line 2 and line 3. See instructions . . . . .	<b>4</b>		00
5 <b>a Credit claimed.</b> Enter the amount of the credit claimed on the current year tax return. See instructions. (Do not include any assigned credit claimed on form FTB 3544, Part B.) . . . . .	<b>5a</b>		00
<b>b</b> Total credit assigned. Enter the total amount from form FTB 3544, Part A, column (g). If you are not a corporation, enter -0-. See instructions . . . . .	<b>5b</b>		00
<b>c</b> Credit amount to be elected as refundable in future years. See instructions . . . . .	<b>5c</b>		00
6 Carryover of the disallowed credit amount to future years. Add lines 5a, 5b, and 5c, subtract the result from line 4. See instructions . . . . .	<b>6</b>		00

## What's New

**Credit Limitation** – For taxable years beginning on or after January 1, 2024, and before January 1, 2027, there is a \$5,000,000 limitation on the application of business credits. The total of all business credits including the carryover of any business credit for the taxable year may not reduce the “net tax”, for personal income filers, or “tax”, for corporate filers, by more than \$5,000,000. Business credits should be applied against “net tax” before other credits. For taxpayers included in a combined report, the limitation is applied at the group level.

For each taxable year of the limitation, taxpayers may make an irrevocable election to receive an annual refundable credit amount for the credits disallowed due to the limitation. Taxpayers may claim 20% of this refundable credit in each year of a five-year refundable period. The refundable period begins the third taxable year after the taxable year in which the election is made. To make this irrevocable election, complete form FTB 3870, Election for Refundable Credit, and submit it with an original, timely filed return.

S corporations may **not** elect to make credits taken at the entity level refundable.

If a taxpayer does not choose to make the election outlined above, business credits disallowed due to the limitation may be carried over. The carryover period for disallowed credit is extended by the number of taxable years the credit was not allowed. For more information, refer to California Revenue and Taxation Code Sections 17039.4, 17039.5, 23036.4 and 23036.5 and get form FTB 3870.

## General Information

### 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, trusts, partnerships, or limited liability companies (LLCs) classified as partnerships.

S corporations, estates, 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, Credits, 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

For taxable years beginning on or after January 1, 2024, and before January 1, 2027, there is a \$5,000,000 limitation on the application of business credits, including carryover. For taxpayers included in a combined report, the limitation is applied at the group level.

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.

For more information on SMLLCs, get Form 568, Limited Liability Company Tax Booklet.

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.**

## D Assignment of Credits

**Assigned Credits to Affiliated Corporations** – Credit earned by members of a combined reporting group may be assigned to an affiliated corporation that is an eligible member of the same combined reporting group. A credit assigned may only be claimed by the affiliated corporation against its tax liability. For more information, get form FTB 3544, Assignment of Credit, or go to [ftb.ca.gov](http://ftb.ca.gov) and search for **credit assignment**.

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## 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, trusts, partnerships, or LLCs classified as partnerships, add the amounts and enter the total. Attach a schedule showing the names and identification numbers of the entities from which the credits were passed through to you.

### Line 5a – Credit claimed

**Do not** include assigned credits claimed on form FTB 3544, Part B, List of Assigned Credit Received and/or Claimed by Assignee.

This amount may be less than the amount on line 4 if your credit is limited by your tax liability. For more information, see General Information C, Limitations, and refer to the credit instructions in your tax booklet. Use credit code **162** when you claim this credit.

### Line 5b – Total credit assigned

Corporations that assign credit to other corporations within the same combined reporting group must complete form FTB 3544, Part A, Election to Assign Credit Within Combined Reporting Group. Enter the total amount of credit assigned from form FTB 3544, Part A, column (g) on this line.

### Line 5c – Credit amount to be elected as refundable in future years

You may elect to make credits that are disallowed due to the \$5,000,000 credit limitation refundable in future years. If you make this election on form FTB 3870, enter the amount of credit that would have otherwise been available to reduce tax in this tax year but for the \$5,000,000 credit limitation. Do not include credit limited by your tax.

You may not elect to have a partial amount of your disallowed credit be refundable. If you elect to make the amount of this credit that is disallowed due to the \$5,000,000 credit limitation refundable, you must make the same election for all other credits you claimed this year that were also disallowed due to the \$5,000,000 credit limitation. If you enter a value on in this line, you must also enter the same amount on form FTB 3870 line 1, column (c). Attach your complete form FTB 3870 to your original, timely filed tax return.

### Line 6 - Carryover of the disallowed credit amount to future years.

**Do not** include any amount you will be electing as a refundable credit on form FTB 3870.

Credit limited by your tax liability cannot be included in an election for refundable credit. These amounts would not have otherwise been able to be claimed, regardless of the \$5,000,000 credit limitation and therefore are not eligible for an election to be made refundable. They can, however, be carried over for future years. Include any such amounts here.

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