Frequently Asked Questions about the Alternative Minimum Taxable Income (AMTI) – Exclusion

The Franchise Tax Board has received a considerable number of questions on the newly enacted provision (see R&TC 17062 (b) (4)) that allows qualified taxpayers to exclude income, positive and negative adjustments and preference items when figuring alternative minimum taxable income (AMTI). The following information addresses most of the questions that were asked.

Q1. What is the new law?

A1. Beginning January 1, 1996, a qualified taxpayer shall exclude income, positive and negative adjustments and preference items attributable to any trade or business when figuring AMTI. A qualified taxpayer is an individual, estate or trust who:

- Owns, or has an ownership interest in, a trade or business;
- Has gross receipts, less returns and allowances, during the taxable year of less than $1,000,000 from all trade or businesses for which the taxpayer is the owner or has an ownership interest ("aggregate gross receipts"). Gross receipts may include but are not limited to items reported on federal Schedules C, D, E or F and from Form 4797 (or California Schedule D-1 if you were required to complete it) figured in accordance with California law that are associated with your trade or business. In the case of an ownership interest, the taxpayer should include only the proportional share of gross receipts of any trade or business from a partnership, S corporation, regulated investment company (RIC), a real estate investment trust (REIT) or a real estate mortgage investment conduit (REMIC).

Q2. What is included in gross receipts?

A2. (The following are examples, not a comprehensive listing. Figure all items in accordance with California law. Also, apply the $1,000,000 test to the return, regardless of marital status; the threshold does not become $2,000,000 for married filing joint taxpayers.)

- Schedule C: Combine gross receipts (or sales) and other income and reduce the total by returns and allowances.
- Schedule E: Include gross rents and gross royalties. Consider these amounts as trade or business income for purposes of determining aggregate gross receipts.
- Schedule F: Include gross income.
- Schedule D, D-1 and Form 4797: Include gross sale price of business assets.
- Schedule K-1: The partnership, S corporation or trust should provide the proportional share of aggregate gross receipts on the partner's, shareholder's or beneficiary's Schedule K-1 under "other items."
- Nonresidents: Apply the gross receipts test to "income from all sources." Do not apply again for "income from California sources."

- Installment sale: Include gross installment received in the current tax year.
- Like-kind exchange: Include boot.
- Sale of business property: Include gross sale amount.
- Casualty loss on business property: Include reimbursement proceeds.
- Guaranteed payments to partners: Include gross payment.

Q3. What amounts are excluded from AMTI?

A3. (The following are examples, not a comprehensive listing. To be excluded from AMTI, the amounts must have been included in taxable income.)

- Net business income: Combine net gains and losses from all trade or business of the taxpayer. These amounts should be net of all business expenses including self employment tax and Keogh deductions.
- Schedule K-1: Include all items except those listed under “Credits,” “Adjustments and Tax Preference Items,” and “Other.”
- Installment sale: Include taxable portion of the installment received.
- Like-kind exchange: Include gain recognized.
- Sale of business property: Include net taxable gain on sale.
- Casualty loss on business property: Include reimbursement in excess of basis.
- Guaranteed payments to partners: Include amount attributable to trade or business.

Q4. How do I exclude adjustments and preferences related to trade or business income?

A4. Do not record any qualifying adjustments and preferences on Schedule P, Alternative Minimum Tax and Credit Limitations.