

Alternative Minimum Tax and Credit Limitations — Residents

Attach this schedule to Form 540.

Name(s) as shown on Form 540

Your social security number

Part I Alternative Minimum Taxable Income (AMTI) Important: See instructions for information regarding California/federal differences.

1 If you itemized deductions, go to line 2. If you did not itemize deductions, enter your standard deduction from Form 540, line 18, and go to line 6 ... 1
2 Medical and dental expense. Enter the smaller of Schedule A (Form 1040), line 4, or 2 1/2% of Form 1040, line 34 ... 2
3 Personal property taxes and real property taxes. See instructions ... 3
4 Certain interest on a home mortgage not used to buy, build, or improve your home. See instructions ... 4
5 Miscellaneous itemized deductions. See instructions ... 5
6 Refund of personal property taxes and real property taxes. See instructions ... 6
Caution: Do not include your state income tax refund on this line.
7 Investment interest expense adjustment. See instructions ... 7
8 Post-1986 depreciation. See instructions ... 8
9 Adjusted gain or loss. See instructions ... 9
10 Incentive stock options and California qualified stock options (CQSOs). See instructions ... 10
11 Passive activities adjustment. See instructions ... 11
12 Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 8 ... 12
13 Other. Enter the amount, if any, for each item, a through o, and enter the total on line 13. See instructions.
a Appreciated contributions ... b Circulation expenditures ... c Depletion ... d Depreciation (pre-1987) ... e Installment sales ... f Intangible drilling costs ... g Long-term contracts ... h Loss limitations ... i Mining costs ... j Patron's adjustment ... k Pollution control facilities ... l Qualified small business stock ... m Research and experimental ... n Tax shelter farm activities ... o Related adjustments ... 13
14 Total Adjustments and Preferences. Combine line 1 through line 13 ... 14
15 Enter taxable income from Form 540, line 19. See instructions ... 15
16 Net operating loss (NOL) deduction from Schedule CA (540), line 21b, 21d, and 21e, column B. Enter as a positive amount ... 16
17 AMTI exclusion. See instructions ... 17
18 If your federal adjusted gross income (AGI) is less than the amount for your filing status (listed below), skip this line and go to line 19. If you itemized deductions and your federal AGI is more than the amount for your filing status, see instructions.
Single or married filing separate ... \$130,831
Married filing joint or qualifying widow(er) ... \$261,664
Head of household ... \$196,248
18
19 Combine line 14 through line 18 ... 19
20 Alternative minimum tax NOL deduction. See instructions. Do not enter more than 90% of line 19 ... 20
21 Alternative Minimum Taxable Income. Subtract line 20 from line 19 (if married filing separate and line 21 is more than \$248,583, see instructions) ... 21

Part II Alternative Minimum Tax (AMT)

22 Exemption Amount. (If this schedule is for a child under age 14, see instructions.)

If your filing status is:

And line 21 is not over:

Enter on line 22:

Table with 3 columns: Filing status, Line 21 limit, and Line 22 amount. Rows include Single or head of household, Married filing joint or qualifying widow(er), and Married filing separate.

If Part I, line 21 is more than the amount shown above for your filing status, see instructions.

23 Subtract line 22 from line 21. If zero or less, enter -0- ... 23
24 Tentative Minimum Tax. Multiply line 23 by 7.0% (.07) ... 24
25 Regular tax before credits from Form 540, line 20. If an amount is entered on Form 540, line 23, see instructions ... 25
26 Alternative Minimum Tax. Subtract line 25 from line 24. If zero or less, enter -0- here and on Form 540, line 35. If more than zero, enter here and on Form 540, line 35. (Exception: If you have carryover credit for solar energy or commercial solar energy, first enter the result on Side 2, Part III, Section C, line 25.) ... 26

Part III Credits that Reduce Tax Note: Be sure to attach your credit forms to Form 540.

1	Enter the amount from Form 540, line 24	1	
2	Enter the tentative minimum tax from Side 1, Part II, line 24	2	

Section A – Credits that reduce excess tax.

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
3	Subtract line 2 from line 1. If zero or less enter -0- and see instructions. This is your excess tax which may be offset by credits			
A1 Credits that reduce excess tax and have no carryover provisions.				
4	Code: 170 Credit for joint custody head of household			
5	Code: 173 Credit for dependent parent			
6	Code: 163 Credit for senior head of household			
7	Code: 214 Long-term care credit			
8	Code: 162 Prison inmate labor credit			
9	Code: 169 Enterprise zone employee credit			
10	Code: 212 Teacher retention credit			
11	Nonrefundable renter's credit			
A2 Credits that reduce excess tax and have carryover provisions. See instructions.				
12	Code: _____ Credit Name: _____			
13	Code: _____ Credit Name: _____			
14	Code: _____ Credit Name: _____			
15	Code: _____ Credit Name: _____			
16	Code: 188 Credit for prior year alternative minimum tax			
Section B – Credits that may reduce tax below tentative minimum tax.				
17	If Part III, line 3 is zero, enter the amount from line 1. If line 3 is more than zero, enter the total of line 2 and the last entry in column (c).			
B1 Credits that reduce net tax and have no carryover provisions.				
18	Nonrefundable renter's credit			
19	Code: 212 Teacher retention credit			
B2 Credits that reduce net tax and have carryover provisions. See instructions.				
20	Code: _____ Credit Name: _____			
21	Code: _____ Credit Name: _____			
22	Code: _____ Credit Name: _____			
23	Code: _____ Credit Name: _____			
B3 Other state tax credit.				
24	Code: 187 Other state tax credit			
Section C – Credits that may reduce alternative minimum tax.				
25	Enter your alternative minimum tax from Side 1, Part II, line 26			
26	Code: 180 Solar energy credit carryover from Section B2, column (d)			
27	Code: 181 Commercial solar energy credit carryover from Section B2, column (d)			
28	Adjusted AMT. Enter the balance from line 27, column (c) here and on Form 540, line 35			

Instructions for Schedule P (540)

Alternative Minimum Tax and Credit Limitations—Residents

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1998**, and to the California Revenue and Taxation Code (R&TC).

What's New

Solar Energy System Credit

A new credit is available for the purchase and installation of a solar energy system. For taxable years beginning on or after January 1, 2001, and before January 1, 2006, there will be allowed a credit equal to the lesser of 15% or 7½% of the net cost paid to purchase and install a solar energy system for the production of electricity, or \$4.50 per rated watt of generating capacity of that system.

The Solar Energy Credit is figured on form FTB 3508.

Joint Strike Fighter Credit "Wages/Property"

- The Joint Strike Fighter Wages credit is 50% of qualified wages paid or incurred in taxable years beginning during 2001, not to exceed \$10,000 for each qualified employee.
- The Joint Strike Fighter Property Costs credit is 10% of the cost of property placed in service in California for ultimate use in a joint strike fighter.

The Joint Strike Fighter Credit is figured on form FTB 3534.

Amended/Extended Credits

- The Employer Child Care Program Credit and the Employer Child Care Contribution Credit are extended to taxable years beginning before January 1, 2007.
- The Community Development Financial Institution Investments Credit was amended to do all of the following:
 - Extend the repeal date to January 1, 2007,
 - Rename "qualified deposits" to "qualified investments" and define "qualified investments,"
 - Limit the amount of the investments eligible for the credit, and require FTB to advise and assist in the administration of the credit.

Exemption amount for a child under age 14

For 2001, the exemption amount for a child under age 14 is the smaller of the regular Alternative Minimum Tax (AMT) exemption amount or the sum of the child's earned income plus \$5,350.

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal law. California has not conformed to most of the changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206) and the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170). California has not conformed to any of the changes made by the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (Public Law 106-519), the Consolidated Appropriations Act of 2001 (Public Law 106-554), and the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16).

Generally, specific differences between California and federal law are noted in the instructions under the applicable line items. See General Information G, Alternative Minimum Taxable Income (AMTI) Exclusion, for information regarding the California alternative minimum taxable income exclusion.

A Purpose

California tax law gives special treatment to some items of income and allows deductions and credits for some items of expense. Many individuals who benefit from these provisions must pay at least a minimum amount of tax and/or limit the amount of their credits.

Use Schedule P (540) to determine if:

- You owe AMT; and

- Your credits must be reduced or eliminated entirely. Your credits may be limited even if you do not owe AMT, so be sure to complete both Side 1 and Side 2 of Schedule P (540).

B Who Must File

Complete Schedule P (540) to see if AMT applies to you. Attach it to your return only if:

- You owe AMT; or
- You have certain credits (such as the credit for child adoption costs, etc.) that are limited by the amount in Part II, line 24 (or in some cases, line 26); or
- The total of Part I, line 7 through line 13 is negative and you would be liable for AMT without taking those lines into account; or
- Schedule P (540), Part I, line 21 is more than Part II, line 22, and you have one or more adjustments on line 4 or line 7 through line 13o.

C Record Keeping

For the AMT, certain items of income, deductions, etc., receive different tax treatment than for the regular tax. Therefore, you need to refigure items for the AMT that you figured for the regular tax. In some cases, you may wish to do this by completing the applicable tax form a second time. If you do complete another form, do not attach it to your return, but keep it for your records.

For regular tax, some deductions may result in carryovers to future taxable years. Examples are investment interest expense, net operating loss, and capital loss. Because you may have to refigure these items for AMT, the carryover amount may be different for AMT than for regular tax. Although the carryovers that you figure for AMT do not affect the carryovers for regular tax, you must keep track of your AMT carryovers in order to complete your Schedule P (540) in future years.

D Partnerships, S Corporations, Limited Liability Companies (LLCs), Estates, or Trusts

If you are a partner in a partnership, a shareholder of an S corporation, or a member of an LLC, you must include your distributive share of adjustments and tax preference items shown on your Schedule K-1 (565), for partners; Schedule K-1 (100S), for shareholders; or Schedule K-1 (568) for members of an LLC. If you are a beneficiary of an estate or trust, you must include the AMT adjustment shown on your Schedule K-1 (541).

E Credit for Prior Year Alternative Minimum Tax

If you paid AMT in a prior year, you may be able to claim the credit for prior year AMT. Get form FTB 3510, Credit for Prior Year Alternative Minimum Tax — Individuals or Fiduciaries, to see if you qualify.

F Additional Information

For more information, get federal Form 6251, Alternative Minimum Tax — Individuals.

G Alternative Minimum Taxable Income (AMTI) Exclusion

A qualified taxpayer shall exclude income, positive and negative adjustments, and preference items attributable to any trade or business when figuring AMTI. These adjustments and preference items must also be excluded when calculating any deductions that may result in AMT carryovers. You are a qualified taxpayer if you:

- Own or have an ownership interest in a trade or business; **and**
- Have **aggregate gross receipts, less returns and allowances**, during the taxable year of less than \$1,000,000 from **all** trades or businesses for which you are the owner or have an ownership interest. Gross receipts may include, but are not limited to, items reported on federal

Schedules C, D, E (other than income from a trust), or F and from federal Form 4797 (figured in accordance with California law), or California Schedule D-1 (if required to complete it) that are associated with a trade or business. In the case of an ownership interest, you 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 real estate mortgage investment conduit (REMIC) in accordance with your ownership interest in the enterprise. Apply the \$1,000,000 test to the return regardless of filing status. The threshold does not become \$2,000,000 for married taxpayers filing joint.

“Aggregate gross receipts, less returns and allowances” means the sum of the gross receipts of the trades or businesses which you own and the **proportionate interest** of the gross receipts of the trades or businesses which you own and of pass-through entities in which you hold an interest.

“Gross receipts, less returns and allowances” means the sum of the gross receipts from the production of business income, as defined in R&TC Section 25120(a), and the gross receipts from the production of nonbusiness income, as defined in R&TC Section 25120(d).

“Proportionate interest” means:

1. In the case of a pass-through entity which reports a profit for the taxable year, your profit interest in the entity at the end of your taxable year.
2. In the case of a pass-through entity which reports a loss for the taxable year, your loss interest in the entity at the end of your taxable year.
3. In the case of a pass-through entity which is sold or liquidates during the taxable year, your capital account interest in the entity at the time of the sale or liquidation.

“Proportionate interest” includes an interest in a pass-through entity including a partnership, S corporation, RIC, REIT, or REMIC.

If you are a qualified taxpayer:

- In Part I, **do not** include any positive or negative adjustments or preference items attributable to any trade or business; and
- In Part I, line 17, enter all taxable income attributable to any trade or business.

Specific Line Instructions

Part I Alternative Minimum Taxable Income (AMTI)

If you itemized your deductions for California regular tax only and not for federal tax, use the amounts from the federal Schedule A (Form 1040) that you completed using California figures when these instructions refer to Schedule A.

Line 3 –Personal property taxes and real property taxes

Enter on this line any of the following from federal Schedule A (Form 1040), line 6, line 7, and line 8:

- State and local personal property taxes; and
- State, local, or foreign real property taxes.

Line 4 –Certain interest on a home mortgage

Enter home mortgage interest in which the proceeds were used for purposes other than buying, building, or improving your principal residence or a qualified dwelling that is your second home (see IRC Section 163(h)(5)). This may be all or part of the amount on federal Schedule A (Form 1040), line 10, line 11, or line 12.

Example 1: Gregory paid \$950 interest on a \$12,000 home equity loan used to buy a ski boat. He would enter \$950 on line 4 because the proceeds were not used to buy, build, or improve his home.

Example 2: Jackie paid \$1,200 interest on a \$15,000 home equity loan to install a swimming pool at her home. She would not make any entry on line 4 because the proceeds of the loan were used to improve her home.

Exception. Do not include interest on a mortgage you took out before July 1, 1982, if it was secured by property that was your main home or a qualified dwelling used by you or a member of your family at the time you took out the mortgage.

Line 5 –Miscellaneous itemized deductions

Enter on this line the amount from federal Schedule A (Form 1040), line 26, adjusted for differences between California and federal law.

Line 6 –Refund of personal property taxes and real property taxes

Enter on this line any refund of taxes you received if:

- The taxes are those described in line 3;
- The taxes are attributable to a taxable year after 1986; and
- You deducted the taxes in a taxable year after 1986.

Line 7 –Investment interest expense adjustment

Enter on this line any investment interest expense adjustment. If you completed form FTB 3526, Investment Interest Expense Deduction, refigure your investment interest expense using a second form FTB 3526. Complete line 1 through line 8. Follow form FTB 3526 instructions for line 1 through line 8, except:

- When completing line 1, include any interest expense from Schedule P (540), Part I, line 4, that was paid or accrued on indebtedness attributable to property held for investment within the meaning of IRC Section 163(d)(5). An example is interest on a home equity loan from which the proceeds were invested in stocks or bonds. This interest might be deductible as home mortgage interest for regular tax, but not for AMT; and
- When entering your 2000 disallowed investment interest expense on line 2, use your 2000 AMT disallowed investment interest expense; and
- When completing line 4, refigure your gross investment income, any net gain from the disposition of property held for investment, and any investment expenses by taking into account all of your AMT adjustments and tax preferences that apply.

Your adjustment is the difference between your AMT form FTB 3526, line 8, and your regular tax form FTB 3526, line 8. If the amount figured for AMT is more than the amount figured for regular tax, enter the adjustment as a negative amount.

Note: If you did not itemize deductions and had investment interest expense, do not enter an adjustment. However, if you reported investment interest expense on federal Schedule E, follow the instructions above for completing form FTB 3526.

Line 8 –Post-1986 Depreciation

If you filed federal Schedule(s) C, E, or F and have tangible property which you began depreciating after 1986, you may need to use the Alternative Depreciation System (ADS) to calculate AMT depreciation as follows:

Property placed in service before 1999

For property placed in service before 1999, refigure the AMT depreciation using the alternative depreciation system (ADS), with the same convention used for the regular tax. See the table below for the method and recovery period to use.

Property placed in service before 1999

IF the property is...	THEN use the...
IRC Section 1250(c) property.	Straight-line method over 40 years.
Tangible property (other than IRC Section 1250(c) property) depreciated using straight line for the regular tax.	Straight-line method over the property's AMT class life.
Any other tangible property.	150% declining balance method, switching to straight line the first tax year it gives a larger deduction, over the property's AMT class life.

Property placed in service after 1998

For property placed in service after 1998, no adjustment is necessary if the property is IRC Section 1250(c) property or tangible property (other than IRC Section 1250(c) property) depreciated using the straight-line or 150% declining balance method for the regular tax. For any other tangible property, use the 150% declining balance method, switching to straight line the first tax year it gives a larger deduction, and the same convention and recovery period used for the regular tax.

Refer to federal Publication 946, How to Depreciate Property, or IRC Section 168(g), for more information on the ADS method.

Grapevines replanted as a result of phylloxera infestation or Pierce's Disease and being depreciated over 5 years: Depreciate over 10 years.

Partners, S corporation shareholders, and LLC members: Enter the amount shown on the Schedule K-1 issued by your partnership, S corporation, or LLC.

Enter on line 8 the difference between depreciation for regular tax and depreciation for AMT. Do not include depreciation from:

- Expenses you incurred as an employee and deducted on federal Schedule A (Form 1040);
- An activity for which you are not at risk;
- Amounts received from a partnership or S corporation, if the basis limitations under IRC Section 704(c) or IRC Section 1366(d) apply;
- A passive activity; or
- A tax shelter farm activity.

Instead, include these types of depreciation when you figure adjustments for line 5, line 11, line 13h, line 13m, or line 13n, whichever applies.

If the AMT depreciation is more than the regular tax depreciation, enter the difference on line 8 as a negative amount.

Line 9 –Adjusted gain or loss

You will have an entry on this line only if you reported a gain or loss on California Schedule D or Schedule D-1, federal Schedule D, federal Form 4797, Sales of Business Property, or federal Form 4684, Casualties and Theft, for income producing property that has a different basis for AMT than for regular tax. Generally, if you reported a gain or loss from the sale or exchange of mutual funds, stocks, or bonds you will not have an entry on this line.

To figure the amount to enter on this line:

Step 1 – Refigure the adjusted basis of the asset sold. Take into account any AMT adjustments you made this year or in previous years for depreciation, incentive stock options, circulation expenditures, pollution control facilities, research and experimental expenditures, and mining costs.

Step 2 – Refigure your gain or loss using the adjusted basis from Step 1.

Step 3 – Figure the difference between the AMT gain or loss and the regular tax gain or loss and enter the result on line 9. Enter the difference as a negative amount if: the AMT gain is less than the regular tax gain; the AMT loss is more than the regular tax loss; or you have an AMT loss and a regular tax gain.

Line 10 –Incentive stock options and California qualified stock options

Incentive stock options (ISOs). For regular tax, no income is recognized when an ISO, as defined in IRC Section 422(b), is granted or exercised. However, this rule does not apply for AMT. Instead, you must generally include on line 10 the excess of:

- The fair market value (FMV) of the stock acquired through the exercise of the option (determined without regard to any lapse restriction) when your rights in the stock first become transferable, or when these rights are no longer subject to a substantial risk of forfeiture, over
- The amount you paid for the stock.

Increase your AMT basis of any stock acquired through the exercise of an ISO by the amount of the AMT adjustment. If you acquired stock by exercising an ISO and you disposed of that stock in the same year, the tax treatment under regular tax and AMT is the same (no adjustment is required).

California qualified stock options (CQSOs). Under R&TC Section 17502, taxpayers whose earned income from the corporation granting the CQSO was \$40,000 or less may exclude compensation arising from the exercise of a CQSO from regular tax income. The amount of compensation excluded for regular tax must be included for AMT on this line.

Line 11 –Passive activities adjustment

You may want to complete a second form FTB 3801, Passive Activity Loss Limitations, and the other forms or schedules on which your passive activities are reported to figure this adjustment. You may enter the following types of adjustments on this line:

Regular passive activities. Refigure your passive activity gains and losses for AMT by taking into account all AMT adjustments and preferences and AMT prior year unallowed losses that apply to the passive activity. The adjustment is the difference between your AMT passive activity income or loss (from activities reported on federal Schedules C, C-EZ, E, F, or federal Form 4835) and income or loss from these activities for regular tax.

Publicly traded partnership (PTP). If you had losses from a PTP, you will have to refigure the losses using any AMT adjustments, preferences, and any AMT prior year unallowed losses.

Tax shelter passive farm activities. Refigure any gain or loss from a tax shelter passive farm activity. Take into account all AMT adjustments, preferences, and AMT prior year unallowed losses. If the amount is a gain, include it on your AMT form FTB 3801. If the amount is a loss, your adjustment for tax shelter passive farm activity is the loss you reported for regular tax. The AMT loss to carry over is the figured AMT loss.

Insolvency. If, at the end of the taxable year, your liabilities exceed the FMV of your assets, increase your passive activity loss allowed by that excess but not by more than your total loss. See IRC Section 58(c)(1).

Line 13 –Other adjustments and preferences

Enter the amount of any other adjustments or preferences that apply to you on line 13a through line 13o. Enter the total on line 13.

Line 13a –Appreciated contributions

California does not conform to the federal treatment of contributions of appreciated property for AMT.

If you contributed appreciated property to a charity and deducted the FMV on federal Schedule A (Form 1040), refigure your contribution deduction, including capital gain and IRC Section 1231 property, using the cost or other basis rather than the FMV.

Do not include property for which you elected under IRC Section 170(b)(1)(C)(iii) to figure the contribution deduction using the property's adjusted basis rather than the FMV.

Enter on this line the amount by which your regular tax charitable contribution exceeds your AMT charitable contribution.

Line 13b –Circulation expenditures

If you elected the optional 3-year write-off period for circulation expenditures under IRC Section 59(e), skip this line.

For regular tax, IRC Section 173 allows you to deduct the full amount of circulation expenditures in the taxable year you paid or incurred them. For AMT, you must amortize these expenditures over 3 years beginning with the year you paid or incurred the expenditures. Enter the difference between your AMT deduction and your regular tax deduction. If your AMT deduction is more than your regular tax deduction, enter your adjustment as a negative amount.

Line 13c –Depletion

For AMT, if the depletion deduction for mines, wells, and other natural deposits determined under IRC Section 611 exceeds the adjusted basis of the property at the end of your taxable year, you have a depletion preference adjustment.

California conformed in 1993 to the federal repeal of the AMT depletion adjustment for independent oil and gas producers and royalty owners. See federal Form 6251 and instructions. However, your California depletion costs may continue to be different from the federal amounts because of prior differences in law and different bases.

To figure your adjusted basis, use the rules in IRC Section 1016, but do not reduce the adjusted basis by current-year depletion. Figure the excess amount separately for each property. Enter on this line only the depletion amount that exceeds your adjusted basis.

Line 13d –Depreciation (pre-1987)

For AMT, you must use the straight-line method to figure depreciation on property placed in service prior to January 1, 1987. Figure the depreciation separately for each property.

15-year or 18-year real property: Use the straight-line method over the same number of years using the half-year convention and no salvage value.

Low-income housing property: Use the straight-line method over 15 years.

Leased property: Use the straight-line method. Figure the depreciation separately for each property.

Leased recovery property (other than 15-year or 18-year real property, or low-income housing): Use the straight-line method with a half-year convention, no salvage value, and the following recovery periods:

5-year property	8 years
10-year property	15 years
15-year public utility property	22 years

Enter the excess of your regular tax depreciation over your AMT depreciation.

Line 13e –Installment sales

If, for regular tax purposes, you used the installment method to report a nondealer disposition of property that occurred after August 16, 1986, but before January 1, 1990, and if the obligation that arose from the disposition was an installment obligation to which the proportionate disallowance rule applied, you must refigure your income for AMT purposes without regard to the installment method.

Enter the difference between your AMT and regular tax income on this line. If the AMT income is smaller, enter the difference as a negative amount.

Line 13f –Intangible drilling costs (IDCs)

If you elected the optional 60-month write-off under IRC Section 59(e) for regular tax for all property in this category, skip this line.

IDCs from oil, gas, and geothermal wells are preferences to the extent that the excess IDCs exceed 65% of the net income from the wells. Figure the preference for oil and gas properties separate from geothermal properties. To figure excess IDCs:

- A. Figure the amount of your IDCs allowed for regular tax under IRC Section 263(c). Do not include any deduction for nonproductive wells. Then refigure your IDCs allowed for AMT by amortizing them over 120 months, starting with the month you placed the well in production. Then subtract your AMT IDCs from your regular tax IDCs to get your excess IDCs. You may elect to use any other method that is allowed in determining cost depletion.
- B. Figure net income by reducing the gross income from all oil, gas, and geothermal wells that you received or accrued during the taxable year by any deductions allocable to these properties (reduced by the excess IDCs). Use only income and deductions allowed for AMT.
- C. Multiply the net income by 65% (.65). Subtract the result from the excess IDCs figured in A. This is your excess IDCs that you must enter on this line.

Exception. The preference for IDCs from oil and gas wells does not apply to taxpayers who are independent producers (i.e., not integrated oil companies as defined in IRC Section 291(b)(4)). However, this benefit may be limited. First, figure the IDC preference as if this exception did not apply. Then, for purposes of this exception, complete

Schedule P (540) through line 19, including the IDC preference. If the amount of the IDC preference exceeds 40% of the amount figured for line 19, enter the excess on line 13f (the benefit of this exception is limited). If the amount of the IDC preference is equal to or less than 40% of the amount figured for line 19, do not enter an amount on line 13f (the benefit of this exception is not limited).

Line 13g –Long-term contracts

For regular tax, you may have figured taxable income from a long-term contract (entered into after February 28, 1986) using the completed-contract method or another method.

For AMT, you must use the percentage-of-completion method described in IRC Section 460(b) to determine your taxable income from any long-term contract (defined in IRC Section 460(f)) you entered into after February 28, 1986. However, this rule does not apply to: (1) any home construction contract (as defined in IRC Section 460(e)(6)) you entered into after June 20, 1988, and before 1991, if you meet the 2-year estimated completion requirement of IRC Section 460(e)(1)(B)(i) and the \$10-million ceiling on average annual gross receipts requirement of IRC Section 460(e)(1)(B)(ii), or (2) any home construction contract entered into after 1990.

Note: In the case of a contract described in IRC Section 460(e)(1), use the simplified procedures for allocating costs outlined in IRC Section 460(b)(3) to determine the percentage of completion.

Enter on line 13g the difference between the income you reported for regular tax and the income you recomputed for AMT. If the income for AMT is less than the income for regular tax, enter the difference as a negative amount.

Line 13h –Loss limitations

Important: If you include AMT adjustments or preferences on this line, **do not** include them on any other line of this schedule. Do not include any passive activities on this line. Instead, use line 11. Also use line 11 for passive tax shelter farm activities. Use line 13n for nonpassive tax shelter farm activities.

For AMT, you must refigure certain limited losses using your AMT adjustments and preferences. Refigure your gains and losses from activities for which you are not at risk. Also, refigure your basis limitations that apply to partnerships and S corporations. Refer to IRC Sections 59(h), 465, 704(d), and 1366(d).

Enter on this line the difference between AMT limited losses (from activities reported on federal Schedules C, C-EZ, E, F, or federal Form 4835) and your regular tax limited losses from these activities.

Line 13i –Mining costs

If you elected the optional 10-year write-off under IRC Section 59(e), skip this line. For AMT, you must capitalize your mining exploration and development costs and amortize them over 10 years beginning with the taxable year you paid or incurred the expenditures. Enter the difference between your AMT and your regular tax mining deduction. If your AMT mining amortization is more than your regular tax mining deduction, enter your adjustment as a negative amount.

See IRC Section 56(a)(2)(B) for special rules that apply to losses related to mining property.

Line 13j –Patron’s adjustment

Distributions you received from a cooperative may be includible in income. Unless the distributions are nontaxable, enter on line 13j the total AMT patronage dividend and per-unit retain allocation adjustment reported to you by the cooperative.

Line 13k –Pollution control facilities

For regular tax, you may elect to amortize the basis of a certified pollution control facility over 60 months. For facilities placed in service before 1999, the AMT deduction is figured using the alternative depreciation system (ADS) described in IRC Section 168(g). Use the federal Class Life Asset Depreciation Range System (ADR) under the straight-line method.

For facilities placed in service after 1998, the AMT deduction is figured under the modified accelerated cost recovery system (MACRS) using the straight-line method.

Enter the difference between your AMT pollution control facilities depreciation and your regular tax pollution control facilities amortization. If your AMT pollution control facilities depreciation is more than your regular tax pollution control facilities amortization, enter the adjustment as a negative amount.

Line 13l –Qualified small business stock exclusion (R&TC 18152.5)

California law provides an exclusion similar to the federal exclusion under IRC Section 1202 for 50% of the gain on the sale of qualifying small business stock originally issued after August 10, 1993 and held for 5 years. However, for California purposes, 80% of the issuing corporation's payroll as measured by total dollar value must be attributable to employment located within California, and at least 80% of the value of the assets of the corporation must be used by the corporation in the active conduct of one or more qualified trades or businesses in California. If you excluded gain as allowed under R&TC 18152.5, multiply the excluded amount by 50% and enter it on this line as a positive amount.

Line 13m –Research and experimental

If you elected the optional 10-year write-off period for research and experimental expenditures under IRC Section 59(e), skip this line.

For regular tax, IRC Section 174(a) allows you to deduct your research and experimental expenditures in the taxable year you paid or incurred them. If you deducted them in the year incurred, you must amortize these expenditures over 10 years for AMT. Figure the adjustment you must enter on this line the same as for circulation expenditures (line 13b).

See IRC Section 56(b)(2)(B) for special rules that apply to losses related to circulation or research property.

Line 13n –Tax shelter farm activities

Important: If you include AMT adjustments or preferences on this line, **do not** include them on any other line of this schedule.

Complete this line only if you have a gain or loss from a tax shelter farm activity (as defined in IRC Section 58(a)(2)) that is **not** a passive activity. If the tax shelter farm activity **is** a passive activity, you must include it with your other passive activities on line 11.

Refigure all gains and losses you reported for regular tax from tax shelter farm activities using your AMT adjustments and preferences. Figure your tax shelter farm activity gain or loss for AMT using the same rules you used for regular tax except:

- Do not take any refigured loss unless you are insolvent (see IRC Section 58(c)(1)); and
- Do not offset gains from other tax shelter farm activities with your recomputed loss.

You must suspend and carryover your loss to future taxable years until you:

- Have a gain in a future taxable year from that same activity; or
- Dispose of the activity.

Enter on this line the difference between the amount that was reported for regular tax for the activity on federal Schedule E or federal Form 4835 and the amount that would be reported for the activity for AMT.

Line 13o –Related adjustments

If you have an entry on:

- Line 7 (if you deducted investment interest on federal Schedule E);
- Line 8 through line 11; or
- Line 13b through line 13n;

refigure the following items. They are limited based on income (other than a limit based on federal AGI or federal modified AGI) using your AMT income:

- IRC Section 179 expense;

- Taxable IRA distribution (if prior year IRA deductions were different for AMT and regular tax);
- Expenses for business or rental use of your home;
- Conservation expenses;
- Self-employed health insurance deduction;
- Keogh retirement plan or self-employed SEP or SIMPLE deduction; and
- IRA deductions affected by the earned income limitation of IRC Section 219(b)(1)(B).

Figure the difference between AMT and regular tax amount for each item. Combine the amounts for all your related adjustments and enter the total on line 13o. Keep a copy of all computations for your records, including any AMT carryover and basis amounts.

Line 15 –Taxable income

Enter on this line the amount from Form 540, line 19. If Form 540, line 19 is zero, subtract Form 540, line 18 from Form 540, line 17 and enter the result as a negative amount.

Line 17 –AMTI Exclusion

Qualified taxpayers shall exclude income from any trade or business when figuring AMTI. If you are a qualified taxpayer (refer to General Information G, Alternative Minimum Taxable Income [AMTI] Exclusion), enter your taxable trade or business income on line 17. If zero or less, enter -0-.

Line 18 –Itemized deductions limitation

If you itemized deductions and your federal AGI is more than the amount shown on line 18, your itemized deductions were limited for regular tax. For the AMT, this limitation does not apply. Enter the amount from line 9 of the Itemized Deductions Worksheet in the **instructions** for Schedule CA (540), Part II, line 40.

Line 20 –Net Operating Loss (NOL) Deduction

If you are carrying over an NOL or a disaster loss from a prior year, you must refigure your NOL deduction for AMT purposes as follows:

- Step 1 Alternative tax NOL for the prior year:** For the year the loss was incurred, complete another form FTB 3805D, FTB 3805V, FTB 3805Z, FTB 3806, FTB 3807, or FTB 3809 using your AMT income and expense amounts rather than the regular tax amounts.
- Step 2 Alternative tax NOL carryover to the current year:** If you incurred the NOL in 2000, the amount of the carryover is the amount figured in Step 1. Otherwise, the amount of the carryover is the amount from Step 1 minus the amounts used for AMT purposes in all preceding carryover years.
- Step 3 Alternative tax NOL deduction for the current year:** Enter on line 20 the lesser of the NOL carryover from Step 2 or 90% of the amount on line 19.

Line 21 –Alternative minimum taxable income (AMTI)

Married taxpayers filing separate returns must complete the following worksheet if line 21 is more than \$248,583.

1. Enter the amount from Schedule P (540), Part I, line 21	1	_____
2. Maximum exemption amount	2	<u>\$248,583</u>
3. Subtract line 2 from line 1	3	_____
4. Multiply line 3 by 25% (.25)	4	_____
5. Enter the smaller of line 4 or \$32,075	5	_____
6. Add line 1 and line 5. Enter the result here and replace the amount on Schedule P (540), Part I, line 21, with this amount	6	_____

Part II Alternative Minimum Tax (AMT)

Line 22 –Exemption Amount

If line 21 is more than the amount shown for your filing status in the middle column of the chart on line 22, complete the Exemption Worksheet on the following page to figure the amount to enter on line 22.

Children Under Age 14

If this form is for a child under age 14, complete the Exemption Worksheet on the following page.

Exemption Worksheet

Note: If line 21 (AMTI) is equal to or more than: \$372,882 if single or head of household; \$497,175 if married filing joint or qualifying widow(er); \$248,583 if married filing separate, your exemption credit is zero. **Do not** complete this worksheet; instead, enter -0- on line 22.

1. Enter \$48,114 if single or head of household; \$64,152 if married filing joint or qualifying widow(er); \$32,075 if married filing separate 1 _____
2. Enter your AMTI from Schedule P (540), Part I, line 21 2 _____
3. Enter \$180,426 if single or head of household; \$240,567 if married filing joint or qualifying widow(er); \$120,283 if married filing separate 3 _____
4. Subtract line 3 from line 2. If zero or less, enter -0- .. 4 _____
5. Multiply line 4 by 25% (.25) 5 _____
6. Subtract line 5 from line 1. If zero or less, enter -0-. If this schedule is for a child under age 14, go to line 7. Otherwise, enter this amount on Schedule P (540), Part II, line 22 and complete Schedule P (540) 6 _____
7. Child's minimum exemption amount 7 \$5,350
8. Enter the child's earned income, if any. Refer to the instructions for federal Form 6251 for more information 8 _____
9. Add line 7 and line 8. 9 _____
10. Enter the smaller of line 6 or line 9 here and on Schedule P (540), Part II, line 22 10 _____

Line 23 – If the line 23 result is zero or less, enter -0- on line 23, and line 24. Go to line 25.

Line 25 –Regular tax before credits

Enter on this line your regular tax from Form 540, line 20, plus any tax from form FTB 5870A, Tax on Accumulation Distribution of Trusts, included on Form 540, line 23.

Note: Do not include the tax from Schedule G-1, Tax on Lump-Sum Distributions, entered on Form 540, line 23. For installment obligations subject to IRC Sections 453(l)(2)(B) (timeshares and residential lots) and 453A (nondealer dispositions greater than \$150,000), do not include tax increases for interest on the deferred tax liability.

Part III Credits That Reduce Tax

Complete Part III **only** if you have tax credits.

Use Part III to determine the:

- Amount of credit that may be used to offset tax;
- Tax that may be offset;
- Amount of credit, if any, that may be carried over to future years; and
- Order in which to claim credits, if you have more than one credit to claim.

Before you begin Part III:

- Complete Form 540 through line 24.
- Figure the amount of your credit(s) using the credit form or worksheet identified in the Credit Table on the next page. Be sure to attach the credit form to your Form 540, if applicable.

To complete Part III:

- Complete line 1 through line 3 to figure the amount of excess tax you may offset by credits.

- Identify in which section(s) of Part III you may take your tax credit(s). Credits without carryover provisions are listed on Schedule P (540) in Section A1 and Section B1 and may be taken only in those sections. Credits with carryover provisions are listed on the Credit Table on the next page. The table identifies the section(s) of Part III in which you may take these tax credits.
- If you have credit(s) in Section B, be sure to complete line 17 in addition to the line(s) for your credit(s).
- If your credit is taken in Section A2 or Section B2, enter the credit code and the credit name in the space provided. Refer to the Credit Table on the next page for the credit code.
- Complete column (a) through column (d) for each line on which you are taking a credit. Refer to "Column Instructions" on the next page.
- If your credit(s) are taken in more than one section, complete each section before going to the next section.
- Refer to the example on page 8 for an illustration.
- Once you complete Part III, see "How to Claim Your Credits" on the next page.

Section A Instructions

Line 3 – Subtract line 2 from line 1. If the amount is zero or less than zero, continue to question 1. If the amount is more than zero, go to Section A1 Instructions.

1. Does the Credit Table show that you may take your credit **ONLY** in Section A1 or Section A2?

Yes You may not take the credit this year. Go to question 2.

No Go to Section B to figure the amount of credit you may take this year. Then continue to Section C if the Credit Table shows that you may also take your credit in Section C.

2. Does the credit have carryover provisions?

Yes Enter the credit code, credit name, and credit amount in column (a) of the section indicated by the table. Enter -0- in column (b). Enter the credit amount in column (d). This is the amount of the credit you may carry over and use in future years.

No You may not take the credit this year or in future years.

Section A1 Instructions

Line 4 through Line 11 – If you have any of the credits listed in this section, complete column (a) through column (c) for each credit in the order listed.

Section A2 Instructions

Line 12 through Line 16 – Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

Note: Generally it is to your advantage to apply credits with limited carryovers before credits with no limitation on carryover. However, you may want to apply credits with no limitation on carryover first, if that is to your advantage.

Section B1 Instructions

Line 18 and Line 19 – If you have the nonrefundable renter's credit or the teacher retention credit, enter in column (b) the amount of the credit that was not used in Section A1.

Section B2 Instructions

Line 20 through Line 23 – Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

Note: Generally, it is to your advantage to apply credits with limited carryovers before credits with no limitation on carryover. However, you may want to apply credits with no limitation on carryover first, if that is to your advantage.

Section B3 Instructions

Line 24 – If you have other state tax credit, complete column (a) through column (c).

Section C Instructions

Line 26 and Line 27 – If you have any of the credits listed in this section, complete column (a) through column (d) for each credit in the order listed.

Column Instructions

In column:

- (a) Enter the amount of credit available to offset tax;
- (b) Figure the amount of credit you are able to use this year by entering the smaller of the amount in column (a) or the amount in column (c) from a previous line;
- (c) Figure the amount of tax remaining to be offset by other credits by subtracting the amount in column (b) from the balance in column (c) of a previous line; and
- (d) Enter the amount of credit carryover available to use in future years by subtracting the amount in column (b) from the amount in column (a).

How to Claim Your Credits

Claim your credits by transferring them to Form 540 as follows:

Credits on Line 4 through Line 24 – If you claim only one or two credits, enter the name, code number, and amount of the credit from column (b) on Form 540, line 28 and/or line 29. To claim credits that are listed in more than one section, total column (b) of the credits that have the same code numbers. Then enter the name, code number, and amount of the credit on Form 540, line 28 and line 29.

Nonrefundable Renter’s Credit – Enter the total amount of nonrefundable renter’s credit from column (b) in Section A1 and Section B1 on Form 540, line 31.

Other Credits – If you have any other credits to claim, add the amounts from column (b) for those credits. Enter the total on Form 540, line 30.

Credit Table Instructions

1. Find your credit(s) in the table.
2. See which sections are identified under “Offset Tax in Section.”
3. Take the credit only in the section(s) the table identifies for your credit.
4. Use the credit in the earliest section possible (see the example on the next page).
5. Complete each section before going to the next section.

Credit Table

Code	Current Credits	Form	Offset Tax in Section:
197	Child Adoption*	Worksheet	A2
209	Community Development Financial Institution Deposits*	N/A	A2
173	Dependent Parent*	Worksheet	A1
205	Disabled Access for Eligible Small Businesses	FTB 3548	A2
204	Donated Agricultural Products Transportation	FTB 3547	A2
190	Employer Child Care Contribution	FTB 3501	A2
189	Employer Child Care Program	FTB 3501	A2
203	Enhanced Oil Recovery	FTB 3546	A2
169	Enterprise Zone Employee	FTB 3553	A1
176	Enterprise Zone Hiring & Sales or Use Tax 1 = hiring 2 = sales or use tax	FTB 3805Z	A2 ₁ B2 ₁ A2 ₂ B2 ₂
207	Farmworker Housing*	N/A	A2
170	Joint Custody Head of Household*	Worksheet	A1
215	Joint Strike Fighter – Wages	FTB 3534	A2
216	Joint Strike Fighter – Property Costs	FTB 3534	A2
198	Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax	FTB 3807	A2
214	Long-Term Care	FTB 3504	A1
172	Low-Income Housing	FTB 3521	A2 B2
199	Manufacturers’ Investment	FTB 3535	A2 B2
211	Manufacturing Enhancement Area (MEA) Hiring	FTB 3808	A2
213	Natural Heritage Preservation	FTB 3503	A2 B2
None	Nonrefundable Renter’s Credit*	Worksheet	A1 B1
187	Other State Tax	Sch. S	B3
188	Prior Year Alternative Minimum Tax	FTB 3510	A2
162	Prison Inmate Labor	FTB 3507	A1
183	Research	FTB 3523	A2 B2
206	Rice Straw*	N/A	A2
163	Senior Head of Household*	Worksheet	A1
217	Solar Energy System	FTB 3508	A2
210	Targeted Tax Area (TTA) Hiring & Sales or Use Tax	FTB 3809	A2 B2
212	Teacher Retention	FTB 3505	A1 B1
Code	Repealed Credits with Carryover Provisions	Form	Offset Tax in Section:
175	Agricultural Products	FTB 3540	A2
196	Commercial Solar Electric System	FTB 3540	A2 B2
181	Commercial Solar Energy	FTB 3540	A2 B2 C
194	Employee Ridesharing	FTB 3540	A2
182	Energy Conservation	FTB 3540	A2
191	Large Employer Ridesharing	FTB 3540	A2
192	Small Employer Ridesharing		
193	Transit Passes		
159	Los Angeles Revitalization Zone (LARZ) Hiring & Sales or Use Tax	FTB 3806	A2 B2
160	Low-Emission Vehicles	FTB 3540	A2
185	Orphan Drug	FTB 3540	A2 B2
184	Political Contributions	FTB 3540	A2
174	Recycling Equipment	FTB 3540	A2
186	Residential Rental & Farm Sales	FTB 3540	A2
171	Ridesharing	FTB 3540	A2
200	Salmon & Steelhead Trout Habitat Restoration	FTB 3540	A2
180	Solar Energy	FTB 3540	A2 B2 C
179	Solar Pump	FTB 3540	A2
178	Water Conservation	FTB 3540	A2
161	Young Infant	FTB 3540	A2

*See the instructions for Form 540.

Example: John and Jackie have a child adoption credit of \$2,500. After looking at the Credit Table, they see that they may take this credit only in Section A2. The table does not identify any other sections for this credit. John and Jackie also have an orphan drug credit carryover from a prior year of \$3,700. Looking at the table again, they see that they may take the carryover credit in Section A2 and Section B2. To complete Part III, they will:

- Step 1 Complete Part III, line 1 through line 3. See the filled-in form below for illustration.
- Step 2 Skip to Section A2 and complete line 12 for the child adoption credit and make the following entries:
- \$2,500 in column (a). This is the amount of the credit they are eligible to take in 2001.
 - \$2,500 in column (b). This is the amount of credit they will be able to use in 2001 because the excess tax that may be offset by credits, \$4,000 on line 3, column (c), is more than the credit amount of \$2,500, on line 12, column (a).
 - \$1,500 in column (c). This is the amount of excess tax remaining to be offset by their other credit (\$4,000 - \$2,500 = \$1,500).
 - \$-0- in column (d). They were able to use all of the credit this year and there is no carryover to next year.
- Step 3 Complete line 13, column (a) through column (d) for the orphan drug credit carryover and make the following entries:
- \$3,700 in column (a). This is the amount of the credit carryover from prior years.
 - \$1,500 in column (b). This is the amount of credit they will be able to use in 2001 because the excess tax remaining to be offset by credits, \$1,500 on line 12, column (c), is less than the credit carryover amount of \$3,700, line 13, column (a).
 - \$-0- in column (c). There is no more excess tax remaining to be offset.
 - \$2,200 in column (d). This is the credit carryover that cannot be used to offset excess tax this year (\$3,700 - \$1,500 = \$2,200).
- Step 4 Skip to Section B and complete line 17, column (c).
- Step 5 Skip to Section B2 and complete line 20, column (a) through column (d) for the orphan drug credit carryover and make the following entries:
- \$2,200 in column (a). This is the amount of credit carryover, from line 13, column (d), they may use to offset net tax.
 - \$1,000 in column (b). This is the amount of credit carryover they will be able to use to offset net tax because the net tax remaining to be offset by credits, \$1,000 on line 17, column (c), is less than the credit carryover amount of \$2,200, line 20, column (a).
 - \$-0- in column (c). There is no more net tax remaining to be offset.
 - \$1,200 in column (d). This is the credit carryover that cannot be used to offset net tax this year (\$2,200 - \$1,000 = \$1,200).
- This credit cannot be claimed in any other section, so the \$1,200 credit remaining in column (d) is carried forward to next year.
- Step 6 Ignore Section C because they do not have any other credits.
- Step 7 For the child adoption credit, enter the credit name, code 197 and \$2,500 from line 12, column (b) on Form 540, line 28.
- Step 8 For the orphan drug credit carryover, enter the credit name, code 185 and \$2,500 (the total of the amounts on line 13, column (b) and line 20, column (b)) on Form 540, line 29.

Part III – Credits that Reduce Tax Note: Be sure to attach your credit forms to Form 540.

1	Enter the amount from Form 540, line 24	1	5,000
2	Enter the tentative minimum tax from Side 1, Part II, line 24	2	1,000

Section A – Credits that reduce excess tax.

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
3	Subtract line 2 from line 1. If zero or less, enter -0- and see instructions. This is your excess tax which may be offset by credits		4,000	
A1	Credits that reduce excess tax and have no carryover provisions.			
4	Code: 170 Credit for joint custody head of household			

A2 Credits that reduce excess tax and have carryover provisions. See instructions.

12	Code: <u>197</u> Credit Name: <u>Child Adoption</u>	12	2,500	2,500	1,500	0
13	Code: <u>185</u> Credit Name: <u>Orphan Drug</u>	13	3,700	1,500	0	2,200
14	Code: ___ Credit Name: _____	14				
15	Code: ___ Credit Name: _____	15				
16	Code: 188 Credit for prior year alternative minimum tax	16				

Section B – Credits that may reduce tax below tentative minimum tax.

17	If Part III, line 3 is zero, enter the amount from line 1. If line 3 is more than zero, enter the total of line 2 and the last entry in column (c)	17			1,000	
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B2 Credits that reduce net tax and have carryover provisions. See instructions.

20	Code: <u>185</u> Credit Name: <u>Orphan Drug</u>	20	2,200	1,000	0	1,200
21	Code: ___ Credit Name: _____	21				
22	Code: ___ Credit Name: _____	22				
23	Code: ___ Credit Name: _____	23				