2020
Enterprise Zone Business Booklet

3805Z

California Forms & Instructions

This booklet contains:

Form FTB 3805Z, Enterprise Zone Deduction and Credit Summary

STATE OF CALIFORNIA
Franchise Tax Board

2020 Instructions for Form FTB 3805Z

Enterprise Zone Businesses

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2015,** and to the California Revenue and Taxation Code (R&TC).

Contents

What's New

Credit Limitation – For taxable years beginning on or after January 1, 2020, and before January 1, 2023, there is a $5,000,000 limitation on the application of business credits for taxpayers. 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 tax filers, or the "tax", for corporate filers, by more than $5,000,000. For taxpayers included in a combined report, the limitation is applied at the group level. The business credits disallowed due to the limitation may be carried over. The carryover period for disallowed credits is extended by the number of taxable years the credit was not allowed. This limitation does not apply to the Low-Income Housing Credit.

Net Operating Loss Suspension – For taxable years beginning on or after January 1, 2020, and before January 1, 2023, California has suspended the net operating loss (NOL) carryover deduction. Taxpayers may continue to compute and carryover an NOL during the suspension period. **However**, taxpayers with taxable income (corporations), net business income or modified adjusted gross income (individuals) of less than $1,000,000, or with disaster loss carryovers are **not** affected by the NOL suspension rules.

The carryover period for suspended losses is extended by:

- Three years for losses incurred in taxable years beginning before January 1, 2020.
- Two years for losses incurred in taxable years beginning on or after January 1, 2020, and before January 1, 2021.
- One year for losses incurred in taxable years beginning on or after January 1, 2021, and before January 1, 2022.

For more information on the NOL suspension, and carryover and carryback periods, get form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations -Corporations, or form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts.

General Information

In general, for taxable years beginning on or after January 1, 2015, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2015. 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), California Adjustments - Residents, or Schedule CA (540NR), California Adjustments-Nonresidents or Part-Year Residents, 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&TC) in the instructions. Taxpayers should not consider the instructions as authoritative law.

Repeal of Geographically Targeted Economic Development Area Tax Incentives

The California legislature repealed and made changes to all of the Geographically Targeted Economic Development Area Tax Incentives. Enterprise Zones (EZ) and Local Agency Military Base Recovery Areas (LAMBRA) were repealed on January 1, 2014. The Targeted Tax Areas (TTA) and Manufacturing Enhancement Areas (MEA) both expired on December 31, 2012. For more information, get the applicable Economic Development Area (EDA) booklet.

Enterprise Zone (EZ) Incentives Repealed

For taxable years beginning on or after January 1, 2014, taxpayers cannot generate the following EZ incentives:

- Business Expense Deduction
- Net Interest Deduction
- Net Operating Loss (NOL)

Taxpayers can no longer generate/incur EZ hiring credits for employees hired on or before December 31, 2013. The credit has expired. Taxpayers can claim the credit carryover from prior years.

For taxable years beginning on or after January 1, 2015, taxpayers cannot generate the EZ Sales or Use Tax Credit.

EZ Credits Carryover Period

The portion of any EZ sales or use tax credit or hiring credit remaining for carryover to taxable years beginning on or after January 1, 2014, shall be carried over only to the succeeding 10 taxable years if necessary, or until the credit is exhausted, whichever occurs first. Any hiring credits generated for employees hired on or before December 31, 2013, may be carried over to the succeeding 10 taxable years.

EZ Incentives

Generally, no further EZ incentives can be generated after the expiration or repeal date. Any EZ credit carryover or EZ net operating loss carryover can continue to be utilized to the extent of tax on business income or business income attributable to the former EZ.

NASSCO AMT Reduction

The Board of Equalization ruled in the *Appeal of NASSCO Holdings, Inc.*, 2010-SBE-001, November 17, 2010, that a corporate taxpayer may use EZ credits and/or the Manufacturing Investment Credit (MIC) to reduce corporate alternative minimum tax (AMT). Go to **ftb.ca.gov** and search for **notice 2011-02** for additional information. However, the MIC carryover has expired. Therefore, corporate taxpayers can no longer use MIC carryover to offset against AMT.

Pass-Through Entities

For purposes of this booklet, the term "pass-through entity" refers to an S corporation, estate, trust, partnership, and limited liability company (LLC). References to "partnerships" include LLCs classified as partnerships.

Single-Sales Factor Formula

R&TC Section 25128.7 requires all business income of an apportioning trade or business, other than an apportioning trade or business under R&TC Section 25128(b), to apportion its business income to California using the single-sales factor formula. For more information, get Schedule R, Apportionment and Allocation of Income, or go to **ftb.ca.gov** and search for **single sales factor.** However, business income apportioned to the EZ continues to be apportioned based on the property and payroll factors.

Assignment of Credit

For taxable years beginning on or after January 1, 2019, the following forms and instructions have been consolidated into one form **FTB 3544**, **Assignment of Credit:**

- FTB 3544, Election to Assign Credit Within Combined Reporting Group.
- FTB 3544A, List of Assigned Credit Received and/or Claimed by Assignee.

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, see instructions for Schedule Z, Computation of Credit Carryover Limitations, on page 9, Assignment of Credit, or get form FTB 3544, Assignment of Credit; or, go to **ftb.ca.gov** and search for **credit assignment**.

Important: Affiliated corporations that received credits assigned under R&TC Section 23663, do not include the assigned credits received on this worksheet. Those credits are entered and tracked on form FTB 3544, Part B, List of Assigned Credit Received and/or Claimed by Assignee.

Introduction

Economic Development Area (EDA) Tax Incentives

California established four types of EDAs that had related tax incentives. These incentives were established to stimulate growth and development in selected areas that were economically depressed. EDA tax incentives applied only to certain business transactions that were undertaken after an EDA had received final designation from the California Department of Housing and Community Development (HCD). Final designation was when the HCD designated an area to be an EDA. Tax incentives were available to individuals and businesses that operated or invested within the geographic boundaries of the following EDAs:

- Enterprise Zones (repealed on January 1, 2014)
- Local Agency Military Base Recovery Areas (repealed on January 1, 2014)
- Manufacturing Enhancement Areas (designation expired on December 31, 2012)
- Targeted Tax Areas (designation expired on December 31, 2012)

Additional information on other EDAs can be found in the following Franchise Tax Board (FTB) tax booklets:

- The LAMBRA tax incentives, FTB 3807, Local Agency Military Base Recovery Area Business Booklet.
- The MEA hiring credit, FTB 3808, Manufacturing Enhancement Area Business Booklet.
- The TTA tax incentives, FTB 3809, Targeted Tax Area Business Booklet.

References in this booklet to the "EZ" are interpreted as "the boundaries of the former EZ as it existed on December 31, 2013."

Reporting Requirement

California statutes require the FTB to provide information to the California Legislature regarding the number of businesses using the EDA tax incentives, types of EDA tax incentives being used, and the EDAs in which the businesses are claiming the tax incentives.

Complete items A through H on Side 1 of form FTB 3805Z, Enterprise Zone Deduction and Credit Summary, as applicable. This information will be used to meet the FTB's statutory reporting requirement.

Purpose

This booklet provides specific information on the types of available former EZ tax incentives. Taxpayers operating or investing in a trade or business located within a designated former EZ may be eligible for the following credit carryover and carryover deductions:

- Hiring credit carryover
- Sales or use tax credit carryover
- NOL carryover deduction

Use this booklet to determine the correct amount of credit carryovers and deductions that a taxpayer may claim for operating or investing in a trade or business located within a designated former EZ. Complete the worksheets in this booklet for each credit carryover and deduction for which the business is eligible. Then enter the total credit carryover and deductions on form FTB 3805Z.

Former Enterprise Zone Designation

EZs were established in California to provide tax incentives to businesses and allow private sector market forces to revive the local economy. The program offered special tax incentives to entities and individuals located in selected EZ areas and engaged in trades or businesses within the selected Standard Industrial Codes listed on page 15 of this booklet.

The areas listed below are the areas that have been officially designated as EZs.

Note: All EZs are repealed as of January 1, 2014.

Repealed zones

Anaheim
Arvin
Barstow
Calexico
Coachella Valley
Compton
Delano
Eureka
Fresno – City
Fresno – County
Harbor Gateway Communities
Hesperia
Imperial Valley
Kings County
Long Beach
Los Angeles – East (formerly Eastside)
Los Angeles – Hollywood
Merced (formerly Merced/Atwater)
Oakland
Oroville
Pasadena
Pittsburg-Bay Point
Richmond
Sacramento
Salinas Valley
San Bernardino (formerly Agua Mansa)
San Diego
San Francisco
San Joaquin (formerly Stockton)
San Jose
Santa Ana
Santa Clarita Valley
Sequoia Valley
Shasta Metro (formerly Redding/Anderson)
Siskiyou County (formerly Shasta Valley)
Southgate – Lynwood
Stanislaus (including Ceres, Modesto, Turlock and Stanislaus County)
Taft
West Sacramento
Yuba/Sutter

Expired zones

Altadena/Pasadena
Antelope Valley
Bakersfield/Kern (formerly SE Bakersfield)
Lindsay
Los Angeles – Central City
Los Angeles – Harbor Area
Los Angeles – Mid-Alameda Corridor
City of Lynwood
Los Angeles – Northeast Valley
Madera
Pittsburg
Porterville
Sacramento – Army Depot
Sacramento – Florin Perkins
San Diego – South Bay
San Diego – Metro
San Francisco
Shafter
Watsonville

For business eligibility or zone related information, including questions regarding the former EZ geographic boundaries and designation period dates, contact the HCD at **hcd.ca.gov** and search for **directory of economic development areas**.

For information that is zone-specific but not tax-specific, you may contact the HCD. See page 16 for the HCD contact information.

Important Considerations

In general, EZ tax incentives applied **only** to investments and business activities undertaken within the EZ **after** the zone received final designation and before the designation expired or was repealed.

Who Can Claim the Former EZ Tax Incentives?

The EZ hiring credit carryover, sales or use tax credit carryover, and NOL carryover deductions are available to individuals, sole proprietors, corporations, estates, trusts, and partnerships operating or investing in a trade or business located within a designated former EZ.

How to Claim Deductions and Credit Carryovers

To claim any EZ carryover deduction or credit carryover, **attach** a completed form FTB 3805Z to your California tax return.

Attach a separate form FTB 3805Z for each EZ business you operate and invest in that is located within a former EZ. Also complete the following schedule and/or worksheets:

- Corporations: Complete Schedule Z and all the worksheets, except for Worksheet I, Income or Loss Apportionment, Section B.
- Sole proprietors: Complete Schedule Z and all the worksheets.
- Trusts, estates, and partnerships: Complete Worksheet I, Section A.
- Individual investors receiving pass-through EZ **credits**, complete Worksheet I, Section B and Schedule Z. All other investors complete Worksheet I, Section A and Schedule Z.
- Individual investors receiving a pass-through **loss**, and having an overall **NOL** carryover: Complete Worksheet I, Section B and Worksheet II, Computation of NOL Carryover and Carryover Limitations. All other investors complete Worksheet II.

Schedule Z is on Side 2 of form FTB 3805Z.

Claim EZ business tax incentives on the following returns:

Form 540 filers:	Form 540, California Resident Income Tax Return, lines 43 through 45, as applicable.
Form 540NR filers:	Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, lines 58 through 60, as applicable.
Form 100 filers:	Form 100, California Corporation Franchise or Income Tax Return, line 20, and lines 24 through 26, as applicable.
Form 100S filers:	Form 100S, California S Corporation Franchise or Income Tax Return, line 18, and lines 22 through 24, as applicable.
Form 100W filers:	Form 100W, California Corporation Franchise or Income Tax Return - Water's Edge Filers, line 20, and lines 24 through 26, as applicable.
Form 109 filers:	Check the "Yes" box for the EZ question I at the top of Form 109, California Exempt Organization Business Income Tax Return, Side 1.

Keep all completed worksheets and supporting documents for your records.

Form FTB 3805Z – Instructions for Items A through H

For corporations, estates, trusts, exempt organizations, and sole proprietors who operate a business in the former EZ, complete items A through H.

Investors of pass-through entities, complete items A through D.

Standard Industrial Classification (SIC) and Principal Business Activity (PBA) Codes

The PBA codes are based on the North American Industry Classification System published by the United States Office of Management and Budget. If you are a business entity, get the PBA code from the 2020 tax booklet (100, 100S, 100W, 565, or 568) that you used to file your tax return. If you are an individual, get the PBA code reported on your federal Form 1040 or Form 1040-SR, Schedule C, Profit or Loss from Business (Sole Proprietorship), line B. Enter the PBA code of your principal activities on form FTB 3805Z, Side 1.

For purposes of qualifying for the Long Beach EZ hiring credit, use the SIC codes listed on page 15. For the Long Beach EZ, enter the SIC code of the establishment that qualifies you to take this credit on form FTB 3805Z, Side 1. If your trade or business has more than one establishment, and if more than one of them qualifies you to take this credit, enter the SIC code that best represents your primary qualifying establishment.

Part I – Credit Carryover

Line 1a – Hiring Credit Carryover

The EZ has expired as of December 31, 2013. Taxpayers can no longer generate/incur EZ hiring credits for employees hired on or after January 1, 2014. Although qualified taxpayers can no longer generate/incur EZ hiring credits for qualified employees hired prior to the EZ expiration date for wages paid or incurred within the 60-month period of the EZ hiring credit, they can claim the hiring credit carryover from prior years.

Credit Limitations

- The amount of hiring credit carryover claimed may not exceed the amount of tax on EZ business income in any year. Use Schedule Z on Side 2 of form FTB 3805Z to compute the credit limitation.
- The portion of any EZ hiring credit remaining for carryover to taxable years beginning on or after January 1, 2014, shall be carried over only to the succeeding 10 taxable years if necessary, or until the credit is exhausted, whichever occurs first.

Record Keeping

Retain a copy of VoucherCert 10-07 and the documentation given to the vouchering agency. In addition, for each qualified employee, keep a schedule of the first 60 months of employment showing (at least) the following:

- Employee's name.
- Date the employee was hired.
- Number of hours the employee worked for each month of employment.
- Smaller of the hourly rate of pay for each month of employment or 150% (or 202%, if applicable) of the minimum wage.
- Location of the employee's job site and duties performed.
- Records of any other federal or state subsidies received for hiring the qualified employee.
- Total qualified wages per month for each month of employment.

Line 1b – Sales or Use Tax Credit Carryover

All EZs are repealed as of January 1, 2014. For taxable years beginning on or after January 1, 2014, taxpayers cannot generate any sales or use tax credit. However, taxpayers can claim the EZ sales or use tax credit carryover from previous years to the extent of the amount of tax on the business income apportioned to the former EZ. The portion of any credit remaining for carryover to taxable years beginning on or after January 1, 2014, shall be carried over only to the succeeding 10 taxable years if necessary, or until the credit is exhausted, whichever occurs first.

Part II – Portion of Business Attributable to the Enterprise Zone

EZ tax credits are limited to the tax on business income attributable to operations within the former EZ. EZ deductions are limited to business income attributable to operations within the former EZ. If the business is located within and outside the former EZ, or in more than one former EZ, determine the portion of total business operations that are attributable to each former EZ. Each taxpayer must complete one form FTB 3805Z for each zone, and therefore, must also compute the income limitation for each one.

Business Income vs. Nonbusiness Income

Only business income is apportioned to the former EZ to determine the incentive limitation.

Business income is defined as income arising from transactions and activities in the regular course of the trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the regular trade or business operations. Nonbusiness income is all income other than business income. See Cal. Code Regs., tit. 18 section 25120 for further references and examples of nonbusiness income.

For corporations and entities doing business in and outside of the former EZ, use Worksheet I, Section A, to determine the EZ apportionment factor to determine the amount of business income attributable to the former EZ.

Pass-through entities must report to their shareholders, beneficiaries, partners, and members the following items:

1. The distributive (or pro-rata for S corporations) share of the business income apportioned to the former EZ.
2. The distributive (or pro-rata for S corporations) share of the business capital gains and losses apportioned to the former EZ included in item 1.
3. The distributive (or pro-rata for S corporation) share of the former EZ property and payroll to corporate partners, members, shareholders, beneficiaries.

Report these items as other information on Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc.; Schedule K-1 (541), Beneficiary's Share of Income, Deductions, Credits, etc.; Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc.; or Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc.

For an individual, use Worksheet I, Section B to determine business income attributable to the former EZ. Business income includes but is not limited to California business income or loss from federal Form 1040 or Form 1040-SR, Schedules: C, Profit or Loss from Business (Sole Proprietorship); D, Capital Gains and Losses; E, Supplemental Income and Loss; F, Profit or Loss from Farming, and California Schedule D-1, Sales of Business Property or federal Form 4797, Sales of Business Property, if California Schedule D-1 is not needed, as well as wages. Be sure to include casualty losses, disaster losses, and any business deductions reported on federal Form 1040 or Form 1040-SR, Schedule A, Itemized Deductions.

Generally, all income which arises from the conduct of trade or business operations of a taxpayer is business income.

If you elected to claim part or all of your current year disaster loss under IRC Section 165(i)(1) on prior year's tax return, do not include the amount of the loss that was claimed on prior year's tax return in your current year business income from the former EZ.

Apportionment

Business income is apportioned to a former EZ by multiplying the **total California business income** of the taxpayer by a fraction. The numerator is the property factor plus the payroll factor, and the denominator is two. Loss is apportioned to the former EZ by multiplying the taxpayer's **total overall business loss** by a fraction. If a taxpayer conducts business in more than one former EZ, the EZ apportionment factor and credit limitations are computed separately for each former EZ.

Property Factor
Property is defined as the average value of all real and tangible personal property owned or rented by the business and used during the taxable year to produce business income.

Property owned by the business is valued at its original cost. Original cost is the basis of the property for federal income tax purposes (prior to any federal adjustment) at the time of acquisition by the business, adjusted for subsequent capital additions or improvements and partial dispositions because of sale or exchange. Allowance for depreciation is not considered.

Rented property is valued at eight times the net annual rental rate. The net annual rental rate for any item of rented property is the total rent paid for the property, less total annual subrental rates paid by subtenants.

Payroll Factor
Payroll is defined as the total amount paid to the business's employees as compensation for the production of business income during the taxable year.

Compensation means wages, salaries, commissions, and any other form of remuneration paid directly to employees for personal services.

Payments made to independent contractors or any other person not properly classified as an employee are excluded.

Compensation Within the Former EZ
Compensation is considered to be within the former EZ if any of the following tests are met:

1. The employee's services are performed within the geographical boundaries of the former EZ.
2. The employee's services are performed within and outside the former EZ, but the services performed outside the former EZ are incidental to the employee's service within the former EZ.

   Incidental means any temporary or transitory service performed in connection with an isolated transaction.

3. If the employee's services are performed within and outside the former EZ, the employee's compensation is attributed to the former EZ if any of the following items are met:
   A. The employee's base of operations is within the former EZ.
   B. There is no base of operations in any other part of the state in which some part of the service is performed, and the place from which the service is directed or controlled is within the former EZ.
   C. The base of operations or the place from which the service is directed or controlled is not in any other part of the state in which some part of the service is performed and the employee's residence is within the former EZ.

   Base of operations is the permanent place from which employees start work and customarily return in order to receive instruction from the taxpayer or communications from their customers or other persons; to replenish stock or other material; to repair equipment; or to perform any other functions necessary in the exercise of their trade or profession at some other point or points.

Corporations Filing a Combined Report
When determining the income attributable to the former EZ, the business income of each corporation doing business in the former EZ is the business income apportioned to California as determined under combined report mechanics. For more information on combined reports, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report. Each corporation computes the income attributable to the former EZ by multiplying California business income by EZ apportionment factor computed in Worksheet I, Section A. The former EZ property and payroll factors used in the determination of EZ business income includes only the taxpayer's California amounts in the denominator.

Each corporation doing business in the former EZ computes the business income attributable to the former EZ according to their own apportioned California business income and interstate apportionment factors.

Example: Computation of former EZ business income assigned to each entity operating within the former EZ
Parent Corporation A has two subsidiaries, B and C. Corporations A and B operate within the former EZ. The combined group operates within and outside California and apportions its income to California using Schedule R. Assume the combined group's business income apportioned to California was $1,000,000 and Corporation A and B's share of California business income is $228,000 and $250,000 respectively. Corporation A and B's separate EZ and separate California property and payroll factor amounts are shown as follows.

Business income apportioned to the former EZ was determined as follows:

	A	B
Property Factor		
EZ Property	$1,000,000	$ 800,000
California Property	$1,000,000	$1,200,000
Apportionment %	100%	66.66%
Payroll Factor		
EZ Payroll	$ 800,000	$ 800,000
California Payroll	$ 800,000	$1,000,000
Apportionment %	100%	80%
Average Apport. % (Property + Payroll Factors) / 2	100%	73.33%
Apportioned Business Income	$ 228,000	$ 250,000
EZ Business Income	$ 228,000	$ 183,325

Instructions for Worksheet I – Income or Loss Apportionment

Section A – Income Apportionment

Use Worksheet I, Section A to determine the amount of business income apportioned to the former EZ.

If the business operates solely within a single former EZ and all its property and payroll are solely within that single former EZ, enter 100% (1.00) on Section A, line 4, column (c). **Do not** complete the rest of Worksheet I. The apportioned EZ business income determines the amount of the tax incentives that can be used. A taxpayer's EZ business income is its California business income multiplied by the specific EZ apportionment percentage computed in Worksheet I, Section A.

Property Factor

When determining the income apportioned to the former EZ, the numerator of the property factor is the average value of the real and tangible personal property owned or rented by the business and used within the former EZ during the taxable year to produce EZ business income. See Worksheet I, Section A, column (b). The denominator of the property factor is the average value of the taxpayer's real and tangible personal property owned or rented and used during the taxable year within California. See Worksheet I, Section A, column (a).

Payroll Factor

When determining income apportioned to the former EZ, the numerator of the payroll factor is the taxpayer's total compensation paid to the employees for working within the former EZ during the taxable year. See Worksheet I, Section A, column (b). The denominator of the payroll factor is the taxpayer's total compensation paid to **employees working in California**. See Worksheet I, Section A, column (a).

The average apportionment percentage shown on line 4 represents the portion of the taxpayer's total business that is attributable to activities conducted within the former EZ. Factors with zero balances in the totals of column (a) will not be included in the computation of the average apportionment percentage. For example, if the taxpayer does not have any payroll within or outside the former EZ, the average apportionment percentage would be computed by dividing line 3 by one instead of by two as normally instructed.

Section B – Income or Loss Apportionment

Form 540 and Form 540NR filers, use Worksheet I, Section B to determine the amount to enter on the following:

- Worksheet II, line 1 and line 6
- Schedule Z, Part I, line 1 and line 3

Do not include disaster losses in any amounts used in the table.

Only California source business income is apportioned to the former EZ. A taxpayer's EZ business income is its California apportioned business income computed using Schedule R, multiplied by the specific EZ apportionment percentage computed using Worksheet I, Section A.

The first step is to determine which portion of the taxpayer's net income is "business income" and which portion is "nonbusiness income." Only business income is apportioned to the former EZ. See Part II, Portion of Business Attributable to the Enterprise Zone instructions, for a complete discussion of business and nonbusiness income.

Part I – Individual Income and Expense Items

Wages

Taxpayers with wages from a company located within and outside the former EZ must determine the EZ wage income by entering the percentage of time they worked within the former EZ in column (b). The percentage of time should be for the same period the wages entered on line 1 were earned. This percentage must be determined based on their record of time and events such as a travel log or entries in a daily planner.

Part II – Pass-Through Income or Loss

Individuals with a Schedule K-1

The individual partner, member, or shareholder completes Worksheet I, Section B, Part II, Pass-Through Income or Loss, and Schedule Z.

Multiple Pass-Through Entities

If you are a shareholder, beneficiary, partner, or member in multiple pass-through entities located within and outside the former EZ from which you received EZ business tax incentives, see the example below for computing your enterprise zone business income in the former EZ.

Example:

Pass-through entity	Trade or business income from Schedule K-1 (100S, 541, 565, or 568)	Entity's EZ apportionment percentage	EZ apportioned income
ABC, Inc.	$40,000	80%	$32,000
A, B, & C	30,000	10%	3,000
ABC, LLC	10,000	50%	5,000
Total			**$40,000**

Part III – Taxpayer's Trade or Business

Business Income or Loss

Use business income or loss from federal Form 1040 or Form 1040-SR, Schedules C, E, and F, plus California adjustments from Schedule CA (540 or 540NR) for each trade or business. Also, include business capital gains and losses from California Schedule D and business gains and losses from California Schedule D-1 (or federal Form 4797, if California Schedule D-1 is not needed) as adjusted on Schedule CA (540 or 540NR).

Income Computation

Located Entirely Within the Former EZ

Line 6 – Line 9: If your business operation reported on federal Form 1040 or Form 1040-SR, Schedule C, E, F, or other schedule is entirely within the former EZ, enter the income or loss from this activity in column (a), and enter 1.00 in column (b).

Line 11 and Line 12: If the gain or loss reported on California Schedule D or Schedule D-1 as adjusted on Schedule CA (540 or 540NR) was attributed to an asset used in an activity conducted entirely within the former EZ, enter the gain or loss reported in column (a), and enter 1.00 in column (b).

Located Entirely Within California

Line 6 – Line 9: If your business operation reported on federal Form 1040 or Form 1040-SR, Schedule C, E, F, or other schedule is entirely within California, enter the income or loss from this activity in column (a). To determine the apportionment percentage in column (b), complete Worksheet I, Section A. Enter the percentage from Worksheet I, Section A, line 4, column (c) on Worksheet I, Section B, column (b).

Line 11 and Line 12: If the gain or loss reported on Schedule D or Schedule D-1 as adjusted on Schedule CA (540 or 540NR) was attributed to an asset used in an activity conducted entirely within California, enter the gain or loss reported in column (a). To determine the apportionment percentage in column (b), complete Worksheet I, Section A. Enter the percentage from Worksheet I, Section A, line 4, column (c) on Worksheet I, Section B, column (b).

Located Within and Outside the former EZ

Line 6 – Line 9: If your business operation reported on federal Form 1040 or Form 1040-SR, Schedule C, E, F, or other schedule is within and outside the former EZ and California, get California Schedule R and complete line 1 through line 18b and line 28 through line 31. Enter the amount from Schedule R, line 18b and line 31 in column (a) of this worksheet. To determine the apportionment percentage in column (b), complete Worksheet I, Section A. Enter the percentage from Worksheet I, Section A, line 4, column (c) on Worksheet I, Section B, column (b).

When computing Schedule R, disregard any reference to Forms 100, 100S, 100W, 100X, 565, or 568. Also, disregard any reference to Schedules R-3, Net Income (Loss) from the Rental of Nonbusiness Property; R-4, Gain (Loss) from the Sale of Nonbusiness Assets; or R-5, Computation of Interest Offset.

Nonresidents that have an apportioning business that operates within the former EZ should have already computed Schedule R, and can use those amounts when that schedule is referenced. Residents complete a Schedule R in order to determine their California source business income.

Line 11 and Line 12: If the gain or loss reported on California Schedule D or Schedule D-1 as adjusted on Schedule CA (540 or 540NR) was attributed to an asset used in an activity conducted within and outside the former EZ and California, get Schedule R and complete Schedule R-1, Apportionment Formula. Multiply the gain or loss reported by the percentage on Schedule R-1, Part A, line 2 or Part B, line 5 and enter the result in column (a). To determine the apportionment percentage in column (b), complete Worksheet I, Section A. Enter the percentage from Worksheet I, Section A, line 4, column (c) on Worksheet I, Section B, column (b).

Line 14 – If you are computing the EZ business income and the result on Worksheet I, Section B, line 14, column (c) is a **positive** amount and:

- You have EZ NOL carryovers, enter the amount on Worksheet II, line 1 and line 6 (skip line 2 through line 5).
- You have EZ credit carryovers, enter the amount on Schedule Z, Part I, line 1 and line 3 (skip line 2).

If the amount is **negative**, you do not have any business income attributable to the former EZ and you cannot utilize any EZ NOL carryover or credit carryover(s) in the current taxable year.

Part III – Net Operating Loss (NOL) Carryover and Deduction

All EZs are repealed as of January 1, 2014. Taxpayers can no longer generate any EZ NOL beginning on or after January 1, 2014. However, taxpayers can claim an NOL carryover deduction from prior years.

For taxable years beginning on or after January 1, 2020, and before January 1, 2023, California has suspended the NOL carryover deduction. Taxpayers may continue to compute and carryover an NOL during the suspension period. **However**, taxpayers with taxable income (corporations), net business income or modified adjusted gross income (individuals) of less than $1,000,000, or with disaster loss carryovers are **not** affected by the NOL suspension rules.

Corporations For 2020, use Form 100, line 18, Form 100W, line 18, or Form 100S, line 15 (net of any adjustments on line 16 and 13) to determine the taxable income.

Individuals For 2020, use the California Schedules CA (540), Part I, Section B, line 3, line 4, and line 6 or CA (540NR), Part II, Section B, line 3, line 4, and line 6; the federal Schedule E, line 26, line 32, and line 40; and the federal Form 4797, line 9, using California amounts. Adjust the amounts on the California Schedule CA (540) by Columns B (subtractions) and C (additions) to get your net business income. On the Schedule CA (540NR), use the amounts from Column E to determine your net business income. Modified adjusted gross income is reflected on the Form 540, line 13 and Form 540NR, line 13 without regard to the federal NOL carryover deduction.

The carryover periods for any NOL or NOL carryover, for which a deduction is disallowed because of the 2020 – 2023 suspensions, are extended by:

- Three years for losses incurred in taxable years beginning before January 1, 2020.
- Two years for losses incurred in taxable years beginning on or after January 1, 2020, and before January 1, 2021.
- One year for losses incurred in taxable years beginning on or after January 1, 2021, and before January 1, 2022.

For NOLs incurred in taxable years beginning on or after January 1, 2008, California has extended the NOL carryover period to 20 taxable years following the year of the loss. A business that operates or invests within a former EZ that generated an NOL in a taxable year beginning before January 1, 2008, can carry the NOL forward 15 years. In addition, up to 100% of the NOL generated in a former EZ can be carried forward.

For taxable years beginning in 2010 and 2011, California suspended the NOL carryover deduction. Taxpayers continued to compute and carryover NOLs during the suspension period. However, corporations with net income after state adjustments (pre-apportioned income) or individuals with modified adjusted gross income of less than $300,000, or with disaster loss carryovers are not affected by the NOL suspension rules.

If corporations are required to be included in a combined report, the 2010 and 2011 NOL limitation amount of $300,000 or more shall apply to the aggregate amount of pre-apportioned income for all members included in the combined report.

Corporations use Form 100 or Form 100W, line 17, or Form 100S, line 14 less line 16 to determine net income after state adjustments (pre-apportioned income).

Individuals use the amount shown on your federal tax return for the same taxable year without regard to the federal NOL deduction (Form 540/540NR, line 13, plus the federal NOL deduction listed on Schedule CA (540),

Worksheet I Income or Loss Apportionment – Enterprise Zones

Section A Income Apportionment

Use Worksheet I, Section A, if your business has net income from sources within and outside the former EZ.	(a) Total within California	(b) Total within the former EZ	(c) Percentage within the former EZ column (b) ÷ column (a)
PROPERTY FACTOR			
1 Average yearly value of owned real and tangible personal property used in the business (at original cost). See instructions for more information. Exclude property not connected with the business and the value of construction in progress.			
Inventory			
Buildings			
Machinery and equipment			
Furniture and fixtures			
Delivery equipment			
Land			
Other tangible assets (attach schedule)			
Rented property used in the business. See instructions			
Total property values			
PAYROLL FACTOR			
2 Employees' wages, salaries, commissions, and other compensation related to business income included in the tax return.			
Total payroll			
3 Total percentage – sum of the percentages in column (c)			
4 Average apportionment percentage – 1/2 of line 3. Enter here and on form FTB 3805Z, Side 1, line 2			

Worksheet I Income or Loss Apportionment – Enterprise Zones (continued)

Section B Income or Loss Apportionment

Part I Individual Income and Expense Items. See instructions.

	(a) Amount	(b) Percentage of time providing services in the former EZ	(c) Apportioned amount column (a) x column (b)
1 Wages			
2 Employee business expenses			
3 Total. Combine line 1, column (c) and line 2, column (c)			

Part II Pass-Through Income or Loss. See instructions.

	(a) Name of entity	(b) Distributive or pro-rata share of business income or loss apportioned to the former EZ from Schedule K-1 (100S, 541, 565, or 568) including capital gains and losses
4		
5	Total. Add line 4, column (b)	

Part III Taxpayer's Trade or Business. See instructions.

	(a) Business income or loss	(b) Apportionment percentage for the former EZ	(c) Apportioned income or loss column (a) x column (b)
6 Schedule C			
7 Schedule E (Rentals)			
8 Schedule F			
9 Other business income or loss			
10 Total. Add line 6 through line 9, column (c)			
	(a) Business gain or loss	**(b)** Apportionment percentage for the former EZ	**(c)** Apportioned gain or loss column (a) x column (b)
11 Schedule D			
12 Schedule D-1			
13 Total. Add line 11, column (c) and line 12, column (c)			
14 Total. Add line 3, line 10, and line 13, column (c), and line 5, column (b)			

Part I, Section B, line 8c, column C, or Schedule CA (540NR), Part II, Section B, line 8c, column C.

For taxable years beginning in 2008 and 2009, California suspended the NOL carryover deduction. Taxpayers continued to compute and carryover NOL during the suspension period. However, corporations with taxable income or individuals with net business income of less than $500,000, or with disaster loss carryovers were not affected by the NOL suspension rules.

The carryover periods for any NOL or NOL carryover, for which a deduction is disallowed because of the 2008 - 2011 suspension, are extended by:

- One year for losses incurred in taxable years beginning on or after January 1, 2010, and before January 1, 2011.
- Two years for losses incurred in taxable years beginning before January 1, 2010.
- Three years for losses incurred in taxable years beginning before January 1, 2009.
- Four years for losses incurred in taxable years beginning before January 1, 2008.

For more information, get form FTB 3805Q, or form FTB 3805V.

For taxable years beginning in 2002 and 2003, California suspended the NOL carryover deduction. Taxpayers continued to carryover an NOL during the suspension period. The carryover period for suspended losses was extended by two years for losses incurred before January 1, 2002, and by one year for losses incurred on or after January 1, 2002, and before January 1, 2003.

The business cannot generate NOLs from activities within the EZ before the first taxable year beginning on or after the date the EZ was officially designated.

Limitation

An EZ NOL carryover deduction can only offset business income attributable to operations within the former EZ.

Election

If you elected and designated the carryover category (general or specific, EZ or LAMBRA NOL) on the original tax return for the year of a loss, file form FTB 3805Z for each year in which an EZ NOL deduction is being taken. The election is **irrevocable**.

If you elected the EZ NOL deduction, you are prohibited by law from carrying over any other type of NOL, relating to EZ activities, from this year.

Alternative Minimum Tax

Taxpayers claiming an EZ NOL carryover deduction, use Schedule P, Alternative Minimum Tax and Credit Limitations, (100, 100W, 540, 540NR, or 541) to compute the NOL for alternative minimum tax purposes.

S Corporations
EZ NOLs incurred prior to becoming an S corporation cannot be used against S corporation income. See IRC Section 1371(b).

However, an S corporation is allowed to deduct an EZ NOL incurred after the S election is made. An S corporation may use the NOL carryover as a deduction against income subject to the 1.5% entity-level tax (3.5% for financial S corporations). The expenses (and income) giving rise to the loss are also passed through to the shareholders in the year the loss is incurred.

Combined Report
Corporations that are members of a unitary group filing a combined report must separately compute the loss carryover for each corporation in the group (R&TC Section 25108) using their individual apportionment factors.

Unlike the NOL treatment on a federal consolidated tax return, a loss carryover for one member included in a combined report may not be applied to the intrastate apportioned income of another member included in a combined report.

Water's-Edge Taxpayer
For any water's-edge taxpayer, R&TC Section 24416(c) imposes a limitation on the NOL deduction if the NOL is generated during a non-water's edge tax year. The NOL carryover is limited to the lesser of the NOL or the re-computed NOL. The re-computed NOL carryover is determined by computing the income and factors of the original worldwide combined reporting group, as if the water's-edge election had been in force for the year of the loss. R&TC Section 24416(c) serves as a limitation. If this section applies, the NOL carryover for each corporation may only be decreased, but not increased.

Instructions for Worksheet II – Computation of NOL Carryover and Carryover Limitations

See instructions for PART III-Net Operating Loss (NOL) carryover and deduction, for more information on the suspension of the NOL carryover deduction for taxable years 2020, 2021, and 2022.

Individuals, exempt trusts, and corporations with current year income and prior year EZ NOL carryover, complete Worksheet II.

An EZ NOL carryover deduction can only offset business income attributable to operations within the former EZ. Use this worksheet to compute the NOL carryover deduction for individuals, exempt trusts, and corporations to reduce current year business income from the former EZ.

Line 1 – See Part II for a discussion of business and nonbusiness income.

Form 540 and Form 540NR filers:

Be sure to include casualty losses, disaster losses, and any business deductions reported on federal Schedule A as itemized deductions.

Exception: If you elected to claim part or all of your current year disaster loss under IRC Section 165(i)(1) on prior year's tax return, do not include the amount of loss that was claimed in your current year business income for the EZ.

Line 2 – In modifying your income, deduct the capital losses only up to the amount of capital gains. Enter any net capital losses included in line 1 as a positive number.

Line 3 – Corporations must reduce income by the disaster loss deduction and the deduction for excess net passive income.

Line 6 – This is your modified taxable income (MTI). You may reduce this amount by your EZ NOL carryover deduction. Your EZ NOL carryover deduction may not be larger than your MTI. If your MTI is a loss in the current year or if it limits the amount of NOL you may use this year, carry over the NOL to future years.

Line 7 – Enter the amount from line 6 in line 7, column (d). If this amount is zero or negative, transfer the amount(s) from line 8b through line 8o, column (b) to column (e), and go to line 9.

Note: Your NOL may be suspended. See the Instructions for Worksheet II, for more information. If your NOL is suspended do not put any amounts in column (c). Carryover the column (b) amount(s) to column (e).

Line 8a through 8o – Enter the amounts on line 8a through line 8o as positive numbers.

In column (c), enter the smaller of the amount in column (b) or the amount in column (d) from the previous line.

In column (d), enter the result of subtracting column (c) from the balance on the previous line in column (d).

In column (e), enter the result of subtracting the amount in column (c) from the amount in column (b), as applicable.

Example:

(b) Carry-over from prior year	(c) Amount deducted this year	(d) Balance available to offset losses	(e) EZ NOL carryover
		$5,000	
$ 500	$ 500	$4,500	$ 0

Line 9 – Total the amounts in columns (b), (c), and (e). Enter the totals from column (b) and column (e) on form FTB 3805Z, Side 1, line 3a and line 3c, accordingly.

Your EZ NOL carryover deduction for 2020 is the total of column (c). Enter this amount on your California tax return or schedule as follows:

- Form 100, line 20
- Form 100S, line 18
- Form 100W, line 20
- Form 109, line 6
- Schedule CA (540), Part I, Section B, line 8e, column B
- Schedule CA (540NR), Part II, Section B, line 8e, column B

Schedule Z – Computation of Credit Carryover Limitations

Credit Carryover Limitations
The amount of EZ credit carryover you can claim on your California tax return is limited by the amount of tax attributable to EZ business income. The amount of tax attributable to the EZ business income is computed in this schedule. For corporations and other entities doing business in the former EZ, the EZ business income is computed in this schedule using the EZ apportionment factor formula computed on Worksheet I, Section A. For individuals, the EZ business income is computed on Worksheet I, Section B. Use Schedule Z on form FTB 3805Z, Side 2 to compute this limitation.

For taxable years beginning on or after January 1, 2020, and before January 1, 2023, there is a $5,000,000 limitation on the application of business credits for taxpayers. 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 tax filers, or the "tax", for corporate filers, by more than $5,000,000. For taxpayers included in a combined report, the limitation is applied at the group level. The business credits disallowed due to the limitation may be carried over. The carryover period for disallowed credits is extended by the number of taxable years the credit was not allowed. This limitation does not apply to the Low-Income Housing Credit.

Assignment of Credit
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.

The eligible assignee shall be treated as if it originally generated the assigned credit. Any credit requirements, limitations or restrictions that applied to the assignor will also apply to the eligible assignee. The amount of EZ credit carryovers you may claim on your California tax return is limited to the tax attributable to a specific former EZ. For zone credits assigned, the assignee must have a tax liability as a result of income generated in the same zone that the original credit was generated. For example, if the original credit was generated in the Fresno City EZ of the assignor, the assignee must have a tax liability on the income attributable to the Fresno City EZ in order to use the assigned credit. For more information on credit assignment, get form FTB 3544 or go to **ftb.ca.gov** and search for **credit assignment**.

Other Limitations
If a taxpayer owns an interest in a disregarded business entity, the amount of the credit carryover that can be utilized is limited to the difference between the taxpayer's regular tax computed with the income of the disregarded entity, and the taxpayer's regular tax computed without the income of the disregarded entity. Partnerships allocate the credit among the

Worksheet II Computation of NOL Carryover and Carryover Limitations – Enterprise Zones. See instructions.

1 Enter the amount from Form 100, or Form 100W, line 17; Form 100S, combined amounts of line 14 and line 16; or Form 109, line 1 or line 4. Form 540 or Form 540NR filers, enter the total from Worksheet I, Section B, line 14, column (c) on line 1 and line 6 (skip line 2 through line 5). See instructions. Corporations filing a combined report, enter the taxpayer's business income assigned to California. See instructions for Part II	1		
2 a Form 100, Form 100W, Form 100S, and Form 109 filers: Enter any nonbusiness income included in line 1 as a negative number. Form 540 and Form 540NR filers leave blank	2a		
b Form 100, 100W, 100S, and 109 filers: Enter any nonbusiness losses included in line 1 as a positive number. Form 540 and Form 540NR filers leave blank	2b		
c Combine line 2a and line 2b	2c		
3 Form 100 or Form 100W filers: Enter the amount from Form 100, line 21 or Form 100W, line 21. Form 100S filers: Enter the total of the amounts from Form 100S, line 16 and line 19. Form 540, Form 540NR, and Form 109 filers: Enter -0-. Enter this amount as a negative number	3		
4 Combine line 1, line 2c, and line 3. If zero or less, enter -0- on line 6	4		
5 Enter the average apportionment percentage from Worksheet I, Section A, line 4	5		
6 Modified taxable income. Multiply line 4 by line 5. See instructions			6

(a) Description	(b) Carryover from prior year	(c) Amount deducted this year	(d) Balance available to offset losses	(e) EZ NOL carryover to future years
7 Modified taxable income from line 6				
8a EZ NOL carryover beginning in 1999				
8b EZ NOL carryover beginning in 2000				
8c EZ NOL carryover beginning in 2001				
8d EZ NOL carryover beginning in 2002				
8e EZ NOL carryover beginning in 2003				
8f EZ NOL carryover beginning in 2004				
8g EZ NOL carryover beginning in 2005				
8h EZ NOL carryover beginning in 2006				
8i EZ NOL carryover beginning in 2007				
8j EZ NOL carryover beginning in 2008				
8k EZ NOL carryover beginning in 2009				
8l EZ NOL carryover beginning in 2010				
8m EZ NOL carryover beginning in 2011				
8n EZ NOL carryover beginning in 2012				
8o EZ NOL carryover beginning in 2013				
9 Total the amounts in columns (b), (c), and (e). See instructions				

partners according to the partner's distributive share as determined in a written partnership agreement. See R&TC Section 17039(e)(2).

Credit carryovers you are otherwise eligible to claim may be limited. Do not apply credit carryovers against the minimum franchise tax (corporations and S corporations), annual tax (partnerships and QSub), alternative minimum tax (exempt organizations, individuals, and fiduciaries), built-in gains tax (S corporations), or excess net passive income tax (S corporations).

Refer to the credit instructions in your tax booklet for more information.

S Corporations and the Application of EZ Credits

An S corporation may use its EZ credit carryovers to reduce EZ tax at both the corporate and shareholder levels.

Carryover

If the amount of EZ credit carryover available this year exceeds your tax, you may carry over any excess credit to future years. For taxable years beginning on or after January 1, 2014, the carryover period is 10 taxable years if necessary, or until the credit is exhausted, whichever occurs first. Apply the carryover to the earliest taxable year possible. In no event can the credit be carried back and applied against a prior year's tax. Generally, the credit cannot be transferred to another taxpayer unless:

- There was a qualifying merger.
- The credit qualifies under R&TC Section 23663 for assignment to an affiliated corporation. For additional information, get form FTB 3544.

If a C corporation had unused credit carryovers when it elected S corporation status, the carryovers were reduced to 1/3 and transferred to the S corporation. The remaining 2/3 were disregarded. The allowable carryovers may be used to offset the 1.5% tax on net income in accordance with the respective carryover rules. These C corporation carryovers may not be passed through to shareholders. For more information, get Schedule C (100S), S Corporation Tax Credits.

Credit Code
Use credit code **176** to claim the EZ hiring credit carryover and sales or use tax credit carryover on your tax return. Using an incorrect code may cause a delay in allowing the credit.

Instructions for Schedule Z – Computation of Credit Carryover Limitations

Reporting Requirements of S Corporations, Estates, Trusts, and Partnerships

- Partnerships and LLCs treated as partnerships do not complete Schedule Z. The partners and members of these types of entities should compute their EZ income from all sources by completing the Schedule Z to determine the amount of EZ credit carryover that they may claim on their California tax returns. For individual partners, report the distributive share of all the business income apportioned to the former EZ. For corporate partners, report the distributive share of the former EZ property and payroll. Report these items as other information on Schedule K-1 (565).
- S corporations and their shareholders complete Schedule Z.
- Report to shareholders, beneficiaries, partners, and members, the distributive or pro-rata share of business income, loss, and deductions apportioned to the former EZ; and
- Separately state the distributive or pro-rata share of any business capital gains and losses apportioned to the former EZ included in the amount above.

S Corporations
Complete only Part I and Part III of Schedule Z if your entity-level tax before credits is more than the minimum franchise tax.

Corporations and S Corporations subject to the minimum franchise tax only
Complete only Part IV of Schedule Z.

All others
Complete Part I and Part II of Schedule Z.

Part I – Computation of Credit Limitations

For filers with NOL carryovers:

- Complete Worksheet II first if you have an NOL carryover.
- Then complete Schedule Z if you have any EZ credits.

If you do not have any NOL carryovers:

- Individuals: Go to Worksheet I, Section B. Follow the worksheet instructions. Enter the amount from Worksheet I, Section B, line 14, column (c) on Schedule Z, Part I, line 1 and line 3 (skip line 2).
- Corporations: Follow the instructions for line 1.

Only business income is apportioned to the former EZ to determine the incentive limitation. Business income is defined as income arising from transactions and activities in the regular course of the trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the regular trade or business operations. Nonbusiness income is all income other than business income.

For corporations filing a combined report, the business income of each corporation doing business in the former EZ is the business income apportioned to California as determined under combined report mechanics. Get FTB Pub. 1061 for more information on combined reports and entity income apportionment.

Line 1 – Enter all trade or business income. See form FTB 3805Z, Part II instructions for the definition of trade or business income.

If a C corporation has a net loss for regular tax purposes, but has positive Alternative Minimum Taxable Income (AMTI), enter the taxpayer's apportioned AMTI.

Line 2 – If your business is located entirely within the former EZ, enter 1.

This percentage is the apportionment percentage computed by the entity using Worksheet I, Section A, and represents the percentage of the entity's business income attributable to the former EZ.

Line 6a – Compute the tax as if the former EZ taxable income represented all of your taxable income.

Individuals
Use the tax table or tax rate schedule in your tax booklet for your filing status.

Exempt Organizations
Use the applicable tax rate in your tax booklet.

Corporations and S Corporations
Use the applicable tax rate.

If the amount on line 6a is the minimum franchise tax ($800), you cannot use your EZ credit carryovers this year. Complete Part IV of Schedule Z to compute the amount of credit carryover.

If a C corporation has a net loss for regular tax purposes and entered apportioned AMTI on line 1, use the applicable AMT rate. The result is the limitation based on EZ business income. Enter this amount on Part II, line 8A, column (f).

Example: Determination of EZ Business Income for Shareholders, Partners, or Members of Pass-Through Entities
John Anderson is vice president of ABC, Inc., an S corporation that has two locations: one within the former EZ and one outside the former EZ. Eighty percent (80%) of the S corporation's business is attributable to the former EZ.

This percentage was determined by ABC, Inc. using form FTB 3805Z, Worksheet I, Section A, when ABC's California S corporation tax return (Form 100S) was prepared. John divides his time equally (50/50) between the two offices of ABC, Inc.

Jackie Anderson (John's spouse/RDP) works for ABC, Inc. at its office located within the former EZ.

John and Jackie Anderson have the following items of California income and expense for the 2020 taxable year:

John's salary from ABC, Inc	$100,000
Jackie's salary from ABC, Inc	75,000
Interest on savings account	1,000
Dividends	3,000
Schedule K-1 (100S) from ABC, Inc.: Ordinary income	40,000
John's unreimbursed employee expenses from federal Schedule A	(2,000)

The Anderson's EZ business income (total amount to be reported on line 3) is computed as follows:

John's EZ salary ($100,000 x 50%)	$50,000
Jackie's EZ salary ($75,000 x 100%)	75,000
Pass-through ordinary income from ABC, Inc. ($40,000 x 80%)	32,000
John's unreimbursed employee business expenses (2,000 x 50%)	(1,000)
Total EZ income (Schedule Z, Part I, line 3)	$156,000

The standard deduction and personal or dependency exemptions are not included in the computation of EZ business income since they are not related to trade or business activities.

John and Jackie must compute the tax (to be entered on Schedule Z, Part I, line 6a) on the total EZ business income of $156,000 (as if it represents all of their income).

Line 6b – Corporations and S Corporations
If the amount on line 6b is the minimum franchise tax ($800), you cannot use your EZ credit carryover this year. Complete Part IV of Schedule Z to compute the amount of credit carryover.

Part II – Limitation of Credits for Corporations, Individuals, Estates, and Trusts

Use Part II of Schedule Z if you are a corporation, individual, estate, or trust. Corporations and S corporations that are subject to paying only the minimum franchise tax, go to Part IV of Schedule Z.

Individuals that received a Schedule K-1, complete Schedule Z, Part II, using the information from the Schedule K-1.

Line 8A, column (e) – Enter the amount from line 7. This is the amount of limitation based on the tax on EZ business income.

Line 8A, column (f) – Enter the amount of credit carryover that is used on Schedule P

(100, 100W, 540, 540NR, or 541), column (b). The amount cannot be greater than the amount on line 8A, column (e) or the amount computed on line 8B, column (d). Enter this amount on form FTB 3805Z, Side 1, line 1a.

Line 8B, column (b) – Enter the amount of the total prior year credit carryover from prior year's Schedule Z, Part II, line 9B, column (g).

Line 8B, column (c) – Enter the amount of credit assigned to affiliated corporations that are members of the same combined reporting group from form FTB 3544, Part A, Election to Assign Credit Within Combined Reporting Group, column (g). Only C corporations who completed the form will enter an amount in this column. Individuals, estates, trusts, leave blank and go to column (d) instructions.

Line 8B, column (d) – Subtract the amount of the total assigned credit on line 8B, column (c), if any, from the amount of the total prior year carryover on line 8B, column (b).

Line 8B, column (e) – Compare the amounts on line 8A, column (e) and line 8A, column (f). Enter the smaller amount.

Line 8B, column (g) – Subtract the amount on line 8B, column (e) from the amount on line 8B, column (d). Enter the result on line 8B, column (g). This is the amount of credit that can be carried over to future years.

This carryover includes both the Schedule P (100, 100W, 540, 540NR, or 541) limitation and the limitation based on EZ business income.

Line 9A, column (e) – Subtract the amount on line 8B, column (e) from the amount on line 8A, column (e). If the result is zero, your remaining credits are limited and must be carried over to future years. In this case, enter the amount from line 9B, column (d) on line 9B, column (g).

Line 9A, column (f) – Enter the amount of credit that is used on Schedule P (100, 100W, 540, 540NR, or 541), column (b). The amount cannot be greater than the amount on line 9A, column (e) or the amount computed on line 9B, column (d). Enter this amount on form FTB 3805Z, Side 1, line 1b.

Line 9B, column (b) – Enter the amount of the total prior year credit carryover from prior year's Schedule Z, Part II, line 9B, column (g).

Line 9B, column (c) – Enter the amount of credit assigned to affiliated corporations that are members of the same combined reporting group from form FTB 3544, Part A, column (g). Only C corporations who completed the form will enter an amount in this column. Individuals, estates, trusts, leave blank and go to column (d) instructions.

Line 9B, column (d) – Subtract the amount of the total credit assigned on line 9B, column (c), if any, from the total prior year carryover on line 9B, column (b).

Line 9B, column (e) – Compare the amounts on line 9A, column (e) and line 9A, column (f). Enter the smaller amount.

Line 9B, column (g) – Subtract the amount on line 9B, column (e) from the amount on line 9B, column (d). Enter the result on line 9B, column (g). This is the amount of credit that can be carried over to future years.

This carryover includes both the Schedule P (100, 100W, 540, 540NR, or 541) limitation and the limitation based on EZ business income.

Part III – Limitation of Credits for S Corporations Only

Use Part III of Schedule Z only if you are an S corporation. Adjust Schedule C (100S) to reflect the EZ business tax limitation (Part I, line 7) after completing this worksheet.

Line 10, column (b) – Enter the amount of the total prior year credit carryover from prior year's Schedule Z, Part III, line 10, column (d).

Also, include this amount on Form 100S, Schedule C.

Line 11, column (b) – Enter the amount of the total prior year credit carryover from prior year's Schedule Z, Part III, line 11, column (d).

Line 10 and Line 11, column (c) – Enter the amount of credit carryover that was used by the S corporation in the current year to offset its 1.5% entity-level tax (3.5% for financial S corporations). Enter the amounts in column (c) for line 10 and line 11 on form FTB 3805Z, Side 1, line 1a and line 1b, as applicable.

Line 10 and Line 11, column (d) – Subtract the amount in column (c) for each line from the amounts in column (b). These are the credit amounts that can be carried over to future years and used by the S corporation.

Part IV – Limitation of Credits for Corporations and S Corporations Subject to Paying Only the Minimum Franchise Tax

Use Part IV of Schedule Z if the corporation or S corporation is subject to paying only the minimum franchise tax.

Line 12, column (b) – Enter the amount of the total prior year credit carryover from prior year's Schedule Z, Part IV, line 12, column (d). S corporations may only enter 1/3 of Schedule Z, Part IV, line 12, column (d) minus the amount that was allowed to be taken on the prior year return.

Line 13, column (b) – Enter the amount of the total prior year credit carryover from prior year Schedule Z, Part IV, line 13, column (d).

Line 12 and Line 13, column (c) – Enter the amounts of credits assigned to affiliated corporations that are members of the same combined reporting group from form FTB 3544, Part A, column (g). Only C corporations who completed the form will enter an amount in this column. S corporations, leave blank and go to column (d) instructions.

Line 12 and Line 13, column (d) – Subtract the amounts in column (c), if any, from the amounts in column (b) for line 12 and line 13. These are the credit amounts that can be carried over to future years.

Example: Part II

Assume the ABC Business has $8,000 of tax. The business computed a credit limitation based on EZ business income of $7,000 on Schedule Z, line 7.

The business has the following credits:

Hiring credit carryover — $300
Sales or use tax credit carryover — $9,000

Schedule Z, Part II would be computed as follows:

Part II Limitation of Credits for Corporations, Individuals, Estates, and Trusts. See instructions.

(a) Credit name		(b) Total prior year carryover	(c) Total credit assigned from form FTB 3544, Part A, col. (g)	(d) Total credit col. (b) minus col. (c)	(e) Limitation based on EZ business income	(f) Credit carryover used on Sch. P can never be greater than col. (d) or col. (e)	(g) Total credit carryover col. (d) minus col. (e)
8 Hiring credit carryover	A				7,000	300	
	B	300	–0–	300	300		–0–
9 Sales or use tax credit carryover	A				6,700	6,700	
	B	9,000	–0–	9,000	6,700		2,300

Standard Industrial Classification Manual, 1987 Edition (Partial Listing)

The Standard Industrial Classification (SIC) Manual classifies business activities based upon establishments, which are defined in the SIC Manual as an economic unit, generally at a single physical location, where business is conducted, or where services or industrial operations are performed. A taxpayer's enterprise may consist of more than one establishment. The SIC Manual provides the following examples of establishments: A factory, mill, store, hotel, movie theater, mine, farm, ranch, bank, railroad depot, airline terminal, sales office, warehouse, or central administrative office. Where distinct and separate economic activities are performed at a single physical location (such as construction activities operated out of the same physical location as a lumber yard), each activity should be treated as a separate establishment where:

(1) No one industry description in the SIC Manual includes such combined activities.

(2) The employment in each economic activity is significant.

(3) Separate reports are prepared on the number of employees, their wages and salaries, sales or receipts, property and equipment, and other types of financial data, such as financial statements, job costing, and profit center accounting.

The SIC Manual is organized using a hierarchical structure, first by division, next by two-digit major groups within each division, then by three-digit industry groups within each major group, and finally by four-digit industry codes within each industry group.

For purposes of this publication, SIC Codes 3721, 3724, 3728, and 3812 are listed since only Long Beach taxpayers with establishments in these industry codes qualify for the EZ hiring credit.

To view the manual, go to **osha.gov** and search for **SIC code**.

The four-digit industry codes within Division D of the SIC Manual are:

3721 Research and Development on Aircraft

3724 Aircraft Engines and Engine Parts

3728 Aircraft Parts and Auxiliary Equipment, not elsewhere classified

3812 Search and Navigation Equipment

How to Get California Tax Information

(Keep This Page For Future Use)

Your Rights as a Taxpayer

Our goal at the FTB is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program, and how you can request written advice from the FTB on whether a particular transaction is taxable. See "Where to Get Tax Forms and Publications" below.

Where to Get Tax Forms and Publications

By Internet – You can download, view, and print California tax forms and publications at **ftb.ca.gov/forms**.

Access other state agencies' websites at **ca.gov**.

By phone – To order current year California tax forms and publications, call our automated phone service. Refer to the list in your tax booklet and find the code for the form you want to order. Call 800.338.0505 and follow the recorded instructions.

Allow two weeks to receive your order. If you live outside California, allow three weeks to receive your order.

In person – Many post offices and libraries provide free California personal income tax booklets during the filing season.

Employees at libraries, post offices, and quick print businesses cannot provide tax information or assistance.

By mail – Write to:

TAX FORMS REQUEST UNIT MS D120
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307

Letters

If you write to us, be sure your letter includes your federal employer identification number (FEIN), California Secretary of State (SOS) file number, California corporation number, social security number (SSN) or individual taxpayer identification number (ITIN), your daytime and evening telephone numbers, and a copy of the notice (if applicable). Send your letter to:

CORRESPONDENCE, ANALYSIS, SUPPORT
AND EDUCATION SECTION   MS F-283
FRANCHISE TAX BOARD
PO BOX 1468
SACRAMENTO CA 95812-1468

We will respond to your letter within ten weeks. In some cases, we may need to call you for additional information.

Do not attach correspondence to your tax return unless the correspondence relates to an item on your tax return.

Internet and Telephone Assistance

Telephone assistance is available year-round from 7 a.m. until 5 p.m. Monday through Friday, except holidays. Hours subject to change.

Website: **ftb.ca.gov**
Telephone: 800.852.5711 from within the United States
916.845.6500 from outside the United States
TTY/TDD: 800.822.6268 for persons with hearing or speech disability
711 or 800.735.2929 California relay service

Asistencia Por Internet y Teléfono

Asistencia telefónica está disponible durante todo el año desde las 7 a.m. hasta las 5 p.m. de lunes a viernes, excepto días feriados. Las horas están sujetas a cambios.

Sitio web: **ftb.ca.gov**
Teléfono: 800.852.5711 dentro de los Estados Unidos
916.845.6500 fuera de los Estados Unidos
TTY/TDD: 800.822.6268 para personas con discapacidades auditivas o del habla
711 ó 800.735.2929 servicio de relevo de California

EZ Contact Information

For business eligibility or zone related information, including questions regarding EZ geographic boundaries and vouchering, contact the HCD or the local zone program manager where the business is located. Go to **hcd.ca.gov** and search for **directory of economic development areas**.

For information that is zone-specific but not tax-specific, contact the HCD at:

DEPARTMENT OF HOUSING &
COMMUNITY DEVELOPMENT
DIVISION OF FINANCIAL ASSISTANCE
ENTERPRISE ZONE PROGRAMS
2020 WEST EL CAMINO AVENUE SUITE 650
SACRAMENTO, CA 95833

Mailing address

PO BOX 952054
SACRAMENTO CA 94252-2054

Website: **hcd.ca.gov**
Telephone: 916.263.2771

or for tax-specific information contact:

FRANCHISE TAX BOARD
Website: **ftb.ca.gov**
Telephone: 916.845.3464