

2019
Los Angeles Revitalization Zone
Business Booklet

3806

California Forms & Instructions

Members of the Franchise Tax Board

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This booklet contains:

Form FTB 3806, Los Angeles Revitalization Zone Net Operating Loss (NOL) Carryover Deduction

Advance Draft
as of 11/14/19



STATE OF CALIFORNIA
Franchise Tax Board

2019 Instructions for Form FTB 3806

Los Angeles Revitalization 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).

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What's New

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.

General Information

Federal/State Conformity

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 or 540NR), California Adjustments, 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.

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 former LARZ continues to be apportioned based on the property and payroll factors.

Pass-Through Entities

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

Reporting Requirement

California statutes require the Franchise Tax Board (FTB) to provide information to the California Legislature regarding the number of businesses using the Economic Development Area (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 G on Side 1 of form FTB 3806, Los Angeles Revitalization Zone Net Operating Loss (NOL) Carryover Deduction, as applicable. The FTB will use this information to meet its statutory reporting requirement.

Introduction

The Former Los Angeles Revitalization Zone

The LARZ expired on December 1, 1998. It was established to aid economic development in areas that suffered damage during the civil unrest that occurred in the County of Los Angeles during April and May 1992. The LARZ became operative on May 1, 1992, and applied to businesses with taxable years beginning on or after January 1, 1992.

The following tax incentives were provided for businesses operating within the LARZ:

- General hiring credit
- Construction hiring credit
- Sales or use tax credit
- Business expense deduction
- Net interest deduction
- NOL carryover deduction

References in this booklet to the “LARZ” are interpreted as “the boundaries of the former LARZ as it existed on November 30, 1998.”

Purpose

Claiming NOL Carryover Deduction

Use this booklet to determine the NOL carryover deduction that the business may claim for operating or investing in a trade or business within the former LARZ.

Complete Worksheet I, Income or Loss Apportionment - Los Angeles Revitalization Zone, and Worksheet II, Net Operating Loss (NOL) Carryover and Carryover Limitations - Los Angeles Revitalization Zone, in this booklet for the NOL carryover deduction for which the business is eligible. Then enter the NOL carryover deduction on form FTB 3806.

If your business is located both within and outside the former LARZ, see Part I, Portion of Business Attributable to the Former Los Angeles Revitalization Zone, for information on how to apportion business income.

How to Claim NOL Carryover Deduction

To claim any LARZ NOL carryover deduction, **attach** a completed form FTB 3806 to your California tax return.

Attach a separate form FTB 3806 for each business you operate or invest in that is located within the former LARZ. Also, complete the following worksheets:

- Corporations: Complete all the worksheets, except for Worksheet I, Section B, Income or Loss.
- Sole proprietors: Complete all the worksheets.
- Trusts, estates, and partnerships: Complete Worksheet I, Section A, Income Apportionment.
- All other investors: Complete Worksheet I, Section A and Worksheet II.

Form FTB 3806 – Instructions for Items A through G

Corporations, estates, trusts, partnerships, exempt organizations, and sole proprietors, complete items A through G.

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

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 2019 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, Schedule C, Profit or Loss from Business (Sole Proprietorship), line B.

Part I – Portion of Business Attributable to the Former Los Angeles Revitalization Zone

LARZ NOL carryover deductions are limited to business income attributable to operations within the former LARZ. If the business is located within and outside of the former LARZ, determine the portion of total business operations that are attributable to the former LARZ. Each taxpayer must complete one form FTB 3806 for each zone, and therefore, must also compute the income limitation for each zone.

Business Income vs. Nonbusiness Income

Only business income is apportioned to the former LARZ 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 LARZ, use Worksheet I, Section A, to determine the former LARZ apportionment factor to determine the amount of business income attributable to the former LARZ.

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

Report these items as other information on Schedule K-1 (100S, 541, 565 or 568), Share of Income, Deductions, Credits, etc.

For an individual, use Worksheet I, Section B to determine business income attributable to the former LARZ. Business income includes but is not limited to California business income or loss from federal Form 1040 (Schedule C, Profit or Loss from Business (Sole Proprietorship); Schedule D, Capital Gains and Losses; Schedule E, Supplemental Income and Loss; Schedule 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, 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 LARZ.

Apportionment

Business income is apportioned to the former LARZ 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.

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 is included in the factor if it was available for use during the taxable year.

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 aggregate annual subrental rates paid by subtenants.

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

The denominator of the property factor is the total average value of all 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

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 payment 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 LARZ

Compensation is considered to be within the former LARZ if any one of the following tests are met:

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

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

3. If the employee's services are performed both within and outside the former LARZ, the employee's compensation is attributed to the former LARZ if any one of the following items is met:

- A. The employee's base of operations is within the former LARZ.
- 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 LARZ.
- 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 LARZ.

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 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.

The numerator of the payroll factor is the taxpayer's total compensation paid to employees for working within the former LARZ 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).

Corporations Filing a Combined Report

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

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

Instructions for Worksheet I – Income or Loss Apportionment

Section A – Income Apportionment

If the business operates only within the former LARZ, enter 100% (1.00) on line 4, of Section A. **Do not** complete the rest of Worksheet I.

Use Worksheet I, Section A to determine the amount of business income apportioned to the former LARZ. The business income apportioned to the former LARZ determines the amount of LARZ NOL carryover that can be used. A taxpayer's LARZ business income is its California business income multiplied by the specific LARZ apportionment percentage computed in Worksheet I, Section A.

Property Factor

When determining the income apportioned to the former LARZ, 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 LARZ during the taxable year to produce the former LARZ business income. See Worksheet I, Section A, column (b).

The denominator of the property factor is the total average value of all 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 LARZ, the numerator of the payroll factor is the taxpayer's total compensation paid to the employees for working within the former LARZ 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 within California. See Worksheet I, Section A, column (a).

Section B – Income or Loss

Taxpayers filing Form 540, California Resident Income Tax Return, or Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, use Worksheet I, Section B on page 5 to determine the amount to enter on Worksheet II, line 1 and line 6.

Do not include disaster losses in any amounts used in the table in column (b).

Only California source business income is apportioned to the former LARZ.

The first step is to determine which portion of the taxpayer's net income is "business income" and which portion is "nonbusiness income," since only business income is apportioned to the former LARZ. See Part I on page 2 of the

instructions for a 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 LARZ, determine the LARZ wage income by entering the percentage of their time that they worked within the former LARZ in column (b). The percentage of time is the same period for which the wages entered on line 1 were earned. Determine this percentage based on records 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 S corporation shareholder completes Worksheet I, Section B, Part II, Pass-Through Income or Loss.

Multiple Pass-Through Entities

If you are a shareholder, partner, or member in multiple pass-through entities with businesses located within and outside the former LARZ from which you received LARZ incentives, see the example below for computing business income in the former LARZ.

Example:

Pass-through entity	Trade or business income from Schedule K-1 (100S, 541, 565, or 568)	Entity's LARZ apportionment percentage	LARZ 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

Use business income or loss from federal Form 1040, 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 Schedule D and business gains and losses from Schedule D-1 (or federal Form 4797, if Schedule D-1 is not needed) as adjusted on Schedule CA (540 or 540NR).

Located Entirely Within the Former LARZ

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

Worksheet I Income or Loss Apportionment – Los Angeles Revitalization Zone

Section A Income Apportionment

Use Worksheet I, Section A, if your business has net income from sources within and outside the former LARZ.

	(a) Total within California	(b) Total within the former LARZ	(c) Percentage within the former LARZ 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 lines 1 and 2, column (c)			
4 Average apportionment percentage (1/2 of line 3). Enter here and on form FTB 3806, line 1			

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 LARZ. Those 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 has no payroll within and outside the former LARZ, then the average apportionment percentage would be computed by dividing line 3 by one instead of by two as normally instructed.

Worksheet I Income or Loss Apportionment – Los Angeles Revitalization Zone (continued)**Section B Income or Loss****Part I Individual Income and Expense Items.** See instructions.

	(a) Amount	(b) Percentage of time providing services in the former LARZ	(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 LARZ 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 LARZ	(c) Apportioned income or loss column (a) x column (b)
6 Schedule C			
7 Schedule E (Rentals)			
8 Schedule F			
9 Other			
10 Total. Add line 6 through line 9, column (c)			

	(a) Business gain or loss	(b) Apportionment percentage for the former LARZ	(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)			

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 the former LARZ, 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, Schedule C, E, F, or another 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 of Former LARZ and California

Line 6 – Line 9: If your business operation reported on federal Form 1040, Schedule C, E, F, or another schedule, is within and outside the former LARZ 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 on column (a) of this worksheet. (For corporations that file a combined report, see instructions for Part I). 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, California Corporation Franchise or Income Tax Return; 100W, California Corporation Franchise or Income Tax

Return, Water's-Edge Filers; 100S, California S Corporation Franchise or Income Tax Return; 100X, Amended Corporation Franchise or Income Tax Return; 565, Partnership Return of Income; or 568, Limited Liability Company Return of Income. 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 LARZ 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 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 LARZ 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 the result on the Worksheet I, Section B, Income or Loss, line 14, column (c) is a **negative** amount, you do not have income attributable to the former LARZ and you cannot claim any LARZ NOL carryovers this year.

Taxable year 2019 is the last year taxpayers can claim LARZ NOL carryover deduction. You can no longer carry over any unused LARZ NOL to future years.

If the result on the Worksheet I, Section B, Income or Loss, line 14, column (c) is a **positive** amount and you have LARZ NOL carryovers, enter the amount on Worksheet II, line 1 and line 6 (skip line 2 through line 5).

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

No new LARZ NOLs may be generated in taxable years beginning on or after January 1, 1998.

LARZ NOL carryovers may still be claimed for 15 years from the year the LARZ NOL was generated.

Note: Taxable year 2019 is the last year taxpayers can claim LARZ NOL carryover deduction.

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 income of less than \$300,000, or with disaster loss carryovers were 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 deductions listed on Schedule CA (540), 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.

If the taxpayer is denied use of an NOL carryover because of the 2008 – 2011 suspension, the carryover period is extended by four years for losses incurred in taxable years beginning

before January 1, 2008. For more information, 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).

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 deduction for disaster losses was not affected by the NOL suspension rules.

Limitation

A LARZ NOL carryover deduction can only offset business income attributable to operations within the former LARZ.

Alternative Minimum Tax

Taxpayers claiming a LARZ NOL carryover deduction, will determine their NOL for alternative minimum tax (AMT) purposes. Use Schedule P (100, 100W, 540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations, to compute the LARZ NOL for AMT purposes.

S Corporations

LARZ NOLs incurred prior to becoming an S corporation may not be used against S corporation income. See IRC Section 1371(b).

S corporations are allowed to deduct a LARZ NOL carryover 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 institutions).

Also, the LARZ NOL carryover(s) of an S corporation may be different than the LARZ NOL carryover(s) of its shareholder(s).

Combined Report

Corporations that are members of a unitary group filing combined report, 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

R&TC Section 24416(c) imposes a limitation on the NOL carryover 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, not increased.

Instructions for Worksheet II – Net Operating Loss (NOL) Carryover and Carryover Limitations

The LARZ NOL carryover deduction is used to reduce current year business income from the former LARZ. Use this worksheet to compute the LARZ NOL carryover deduction for corporations, individuals, and exempt trusts.

Line 1 – See Part I on page 2 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 Form 1040, 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 the loss that was claimed on prior year's tax return in your current year business income for the former LARZ.

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

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

Line 6 – This is your modified taxable income (MTI). Reduce this amount by your LARZ NOL carryover deduction. The LARZ NOL carryover deduction may not be larger than your MTI.

Line 7 – Enter the amount from line 6. If this amount is zero or negative, you have no NOL carryover deduction for this year. Since taxable year 2019 is the last year taxpayers can claim NOL carryover deduction, you can no longer carry over any remaining NOL.

Line 8 – Enter the amounts 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).

Example:

(b) Carryover from prior year	(c) Amount deducted this year	(d) Balance available to offset losses	(e) LARZ NOL carryover to future years
		\$5,000	
\$ 500	\$ 500	4,500	
6,000	4,500	0	

Your LARZ NOL carryover deduction for 2019 is the amount on line 8, 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

Worksheet II Net Operating Loss (NOL) Carryover and Carryover Limitations — Los Angeles Revitalization Zone

1 Enter the amount from Form 100, line 17; Form 100W, line 17; Form 100S, combined amounts of line 14 and line 16; or Form 109, line 1 or line 4. Form 540 and Form 540NR filers, enter on line 1 and line 6 the total from Worksheet I, Section B, line 14, column (c) (skip line 2a through line 5). See instructions. Corporations which file a combined report, enter the taxpayer's business income assigned to California (see instructions Part I)	1		
2 a Form 100, Form 100S, Form 100W, 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, Form 100S, Form 100W, and Form 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 filers: Enter the amount from Form 100, line 21. Form 100W filers: Enter the amount from Form 100W, line 21. Form 100S filers: Enter the total of the amounts from Form 100S, line 16 and line 19. Enter this amount as a negative number. Form 540, Form 540NR, and Form 109 filers: Enter -0-.	3		
4 Combine line 1, line 2c, and line 3	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	6		

(a) Description	(b) Carryover from prior year	(c) Amount deducted this year	(d) Balance available to offset losses	(e)* LARZ NOL carryover to future years
7 Modified taxable income from line 6.				
8 LARZ NOL carryover beginning in 1998.				
9 Total the amounts in column (b) and (c). See instructions				

* Taxable year 2019 is the last year taxpayers can claim LARZ NOL carryover deduction. No LARZ NOL can be carried over to future years after 2019.

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ftb.ca.gov

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ftb.ca.gov

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
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

Economic Development Area Information

Further information about the former LARZ is available from:

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