

**2020**

Local Agency Military Base Recovery Area  
Business Booklet

**3807**

California Forms & Instructions

Members of the Franchise Tax Board

Betty T. Yee, Chair

Antonio Vazquez, Member

Keely Bosler, Member

**This booklet contains:**

**Form FTB 3807**, Local Agency Military Base Recovery Area Deduction and Credit Summary

Advance Draft  
as of 12/15/20



STATE OF CALIFORNIA  
**Franchise Tax Board**

# 2020 Instructions for Form FTB 3807

## Local Agency Military Base Recovery Area 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

General Information	2
How to Claim Deductions and Credit Carryovers	3
Part I – Credit Carryover	4
Hiring Credit Carryover	4
Sales or Use Tax Credit Carryover	4
Part II – Portion of Business Attributable to the LAMBRA	4
Part III – Net Operating Loss (NOL) Carryover and Deduction	6
<b>Worksheet I, Section A, Income Apportionment</b>	7
<b>Worksheet I, Section B, Income or Loss Apportionment</b>	8
<b>Worksheet II, Computation of NOL Carryover and Carryover Limitations</b>	9
Instructions for Schedule Z – Computation of Credit Carryover Limitations	10
<b>Form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary</b>	13
<b>Schedule Z, Computation of Credit Carryover Limitations</b>	14
How to Get California Tax Information	15

### 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](http://ftb.ca.gov) and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for 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.

### LAMBRA Incentives Repealed

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

- Sales or Use Tax Credit
- Business Expense Deduction
- Net Operating Loss (NOL)

However, taxpayers can claim the sales or use tax credit carryover or NOL carryover deduction from previous years.

### Expired LAMBRA Hiring Credit

The LAMBRA has expired as of December 31, 2013. Taxpayers can no longer generate/incur LAMBRA hiring credits for employees hired on or after January 1, 2014. The credit has expired. The taxpayer can claim the credit carryover from prior years.

### LAMBRA Credits Carryover Period

The portion of any LAMBRA 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.

### 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](http://ftb.ca.gov) and search for **single sales factor**. However, business income apportioned to the LAMBRA 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 10, Assignment of Credit, or get form FTB 3544, Assignment of Credit, or go to [ftb.ca.gov](http://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 FTB tax booklets:

- The EZ tax incentives, FTB 3805Z, Enterprise Zone 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 "LAMBRA" are interpreted as "the boundaries of the former LAMBRA as it existed on December 31, 2013."

### Reporting Requirement

California statutes require the Franchise Tax Board (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 3807, Local Agency Military Base Recovery Area 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 LAMBRA tax incentives. Taxpayers operating or investing in a business located within a designated former LAMBRA may be eligible for the following credit carryover and carryover deduction:

- 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 business may claim for operating or investing in a business located within a designated former LAMBRA. Complete the worksheets in this booklet for each credit carryover and deduction for which the business is eligible. Then enter the total credits and deductions on form FTB 3807.

### Former LAMBRA Designation

LAMBRA was established to stimulate growth and development in areas that experienced military base closures. These are the designated LAMBRA with their designation dates. **Note:** All LAMBRA are repealed as of January 1, 2014.

Southern California Logistics Airport  
Designation Date: 2/1/1996

Castle Airport  
(formerly Castle Air Force Base)  
Designation Date: 6/1/1996

Mare Island  
(formerly Mare Island Naval Base)  
Designation Date: 1/1/1999

San Bernardino International Airport and Trade Center  
Designation Date: 4/1/2000

Alameda Point  
(formerly Alameda Naval Air Station)  
Designation Date: 6/1/2000

Mather/McClellan  
(formerly Mather Field/McClellan Park)  
Designation Date: 7/1/2000

San Diego Naval Training Center  
(formerly Liberty Station)  
Designation Date: 6/1/2001

Tustin Legacy  
(formerly Tustin Marine Corps Air Station in Tustin)  
Designation Date: 9/1/2001

For the most updated information regarding the correct LAMBRA designation periods, and for questions regarding business eligibility or zone related information, and geographic boundaries, contact the HCD or the local program manager in which the business is located. Go to [hcd.ca.gov](http://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 LAMBRA Contact Information on page 15.

### Who Can Claim the Former LAMBRA Tax Incentives?

The LAMBRA 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 business located within a designated former LAMBRA.

### How to Claim Deductions and Credit Carryovers

To claim any LAMBRA NOL carryover deduction or credit carryover, **attach** a completed form FTB 3807 to your California tax return.

Attach a separate form FTB 3807 for each LAMBRA business you operate and invest in that is located within a former LAMBRA. Also complete the following schedule and/or worksheets to report credit carryovers and deductions incurred:

- Corporations: Complete Schedule Z and all the worksheets, except for Worksheet I, Income or Loss Apportionment - LAMBRA, 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 LAMBRA **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**: Complete Worksheet I, Section B and Worksheet II, Computation of NOL Carryover and Carryover Limitations - LAMBRA. All other investors complete Worksheet II.

Schedule Z is on Side 2 of form FTB 3807.

Claim LAMBRA business tax incentives on the following tax 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 LAMBRA 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 3807 – Instructions for Items A through H

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

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 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 the business on form FTB 3807, Side 1.

## Part I – Credit Carryover

### Line 1a – Hiring Credit Carryover

The LAMBRA has expired as of December 31, 2013. Taxpayers can no longer generate/incur LAMBRA hiring credits for employees hired on or after January 1, 2014. Although qualified taxpayers can no longer generate/incur LAMBRA hiring credits for qualified employees hired prior to the LAMBRA expiration date for wages paid or incurred within the 60-month period of the LAMBRA 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 LAMBRA business income in any year. Use Schedule Z on Side 2 of form FTB 3807 to compute the credit carryover limitation.
- The portion of any LAMBRA 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 vouchersing 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% of the minimum wage.
- Records of any other federal or state subsidies you may have received for hiring the qualified employee.
- Location of the employee's job site and duties performed.
- Total qualified wages per month for each month of employment.

### Line 1b – Sales or Use Tax Credit Carryover

All LAMBRAAs 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.

#### Credit Limitations

- A sales or use tax credit carryover may be claimed to the extent of business income apportioned to the former LAMBRA. Use Schedule Z to compute the credit limitation.
- 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.

For information about the treatment of credits for S corporations, see instructions for Schedule Z inside this booklet.

## Part II – Portion of Business Attributable to the LAMBRA

LAMBRA business tax credits are limited to the tax on business income attributable to operations within the former LAMBRA. LAMBRA deductions are limited to the business income attributable to operations within the former LAMBRA. If the business is located within and outside a former LAMBRA or in more than one former LAMBRA, determine the portion of total business operations that are attributable to each former LAMBRA. If a taxpayer conducts businesses in more than one former LAMBRA, the LAMBRA apportionment factor and credit limitations are computed separately for each former LAMBRA.

### Business Income vs. Nonbusiness Income

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 taxpayer's 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 LAMBRA,** use Worksheet I, Section A to determine the LAMBRA apportionment factor to determine the amount of business income attributable to the former LAMBRA.

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 LAMBRA.
2. The distributive (or pro-rata for S corporations) share of the business capital gains and losses apportioned to the former LAMBRA included in item 1.
3. The distributive (or pro-rata for S corporation) share of the former LAMBRA 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 LAMBRA. Business income includes but is not limited to California business income or loss from federal Form 1040 or Form 1040-SR, Schedules: C, 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 in your current year business income from the former LAMBRA.

## Apportionment

Business income is apportioned to the former LAMBRA 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 LAMBRA by multiplying the taxpayer's **total overall business loss** by a fraction. If a taxpayer conducts business in more than one former LAMBRA, the LAMBRA apportionment factor and credit limitations are computed separately for each former LAMBRA.

### 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 aggregate 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 LAMBRA

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

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

**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 LAMBRA, the employee's compensation is attributed to the former LAMBRA if any of the following items are met:

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

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

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

### Example: Computation of former LAMBRA business income apportioned to each entity operating within the former LAMBRA

Parent Corporation A has two subsidiaries, B and C. Corporations A and B operate within the former LAMBRA. 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 LAMBRA and separate California property and payroll factor amounts are shown

as follows:

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

	A	B
<b>Property Factor</b>		
LAMBRA Property	\$1,000,000	\$ 800,000
California Property	\$1,000,000	\$1,200,000
<b>Apportionment %</b>	100%	66.66%
<b>Payroll Factor</b>		
LAMBRA Payroll	\$ 800,000	\$ 800,000
California Payroll	\$ 800,000	\$1,000,000
<b>Apportionment %</b>	100%	80%
<b>Average Apport %</b> (Property + Payroll Factors) $\frac{\quad}{2}$	100%	73.33%
<b>Apportioned Business Income</b>	\$ 228,000	\$ 250,000
<b>LAMBRA Business Income</b> (Average Apportionment % X California Business Income)	\$ 228,000	\$ 183,325

## Instructions for Worksheet I – Income or Loss Apportionment

If the business operates solely within a single former LAMBRA and all its property and payroll are solely within that single former LAMBRA, enter 100% (1.00) on Section A, line 4, column (c). Do not complete the rest of Worksheet I.

### Section A – Income Apportionment

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

#### Property Factor

When determining the income apportioned to the former LAMBRA, 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 LAMBRA during the taxable year to produce LAMBRA 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 LAMBRA, the numerator of the payroll factor is the taxpayer's total compensation paid to the employees for working within the former LAMBRA 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).

## Section B – Income or Loss Apportionment

Taxpayers filing Form 540 and Form 540NR, 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 LAMBRA. A taxpayer's LAMBRA business income is its California apportioned business income computed using Schedule R, multiplied by the specific LAMBRA 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 LAMBRA. See Part II, Portion of Business Attributable to the LAMBRA, 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 a former LAMBRA must determine the LAMBRA wage income by entering the percentage of time they worked within the former LAMBRA 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 with businesses located within and outside a former LAMBRA from which you received LAMBRA business tax incentives, see the example below for computing business income in the former LAMBRA.

#### Example:

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

## 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 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 LAMBRA

**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 LAMBRA, 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 LAMBRA, 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 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 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 LAMBRA and 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 within and outside the former LAMBRA 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 LAMBRA 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 a former LAMBRA 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 LAMBRA business income and the result on Worksheet I, Section B, line 14, column (c) is a **positive** amount and:

- You have LAMBRA NOL carryovers, enter the amount on Worksheet II, line 1 and line 6 (skip line 2 through line 5).
- You have LAMBRA 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 LAMBRA and you cannot utilize any LAMBRA NOL carryover or credit carryover(s) in the current taxable year.

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

All LAMBRAAs are repealed as of January 1, 2014. Taxpayers can no longer generate a LAMBRA 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 ~~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.

**Worksheet I Income or Loss Apportionment – LAMBRA**

**Section A – Income Apportionment**

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

	(a) Total within California	(b) Total within a former LAMBRA	(c) Percentage within a former LAMBRA column (b) ÷ column (a)
<b>PROPERTY FACTOR</b>			
<b>1</b> Average yearly value of owned real and tangible personal property used in the business (at original cost). See instructions. 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.			
<b>Total property values</b> .....			
<b>PAYROLL FACTOR</b>			
<b>2</b> Employees' wages, salaries, commissions, and other compensation related to business income included in the return.			
<b>Total payroll</b> .....			
<b>3</b> Total percentage, sum of the percentages in column (c)			
<b>4</b> Average apportionment percentage (1/2 of line 3). Enter here and on form FTB 3807, Side 1, line 2 .....			

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 LAMBRA. 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 LAMBRA, the average apportionment percentage would be computed by dividing line 3 by one instead of by two as normally instructed.

**Corporations** For 2020, use forms FTB 100, line 18, FTB 100W, line 18, or FTB 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.

A business that operates or invests within a former LAMBRA that generated an NOL in a taxable year beginning before January 1, 2008, can carry the NOL forward 15 years. 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.

Financial institutions using the bad debt reserve method may carryover the loss for a maximum of five taxable years.

In addition, up to 100% of the NOL generated in a former LAMBRA 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 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.

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 suspensions, 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.

**Worksheet I Income or Loss Apportionment – LAMBRA (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 LAMBRA	(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 LAMBRA 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 LAMBRA	(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 LAMBRA	(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). See instructions. . . . .			

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

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

**Limitation**

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

**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 3807 for each year in which a LAMBRA NOL deduction is being taken. The election is **irrevocable**.

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

**Alternative Minimum Tax**

Taxpayers claiming a LAMBRA NOL carryover deduction, determine your NOL for alternative minimum tax (AMT) purposes. Use Schedule P

Alternative Minimum Tax and Credit Limitations, (100, 100W, 540, 540NR, or 541) to compute the NOL for AMT purposes.

**S Corporations**

LAMBRA 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 a LAMBRA 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.



**Worksheet II Computation of NOL Carryover and Carryover Limitations – LAMBRA.** See instructions.

<b>1</b> 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 and 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 which file a combined report, enter the taxpayer's business income assigned to California (see instructions Part II) . . . . .	<b>1</b>	
<b>2 a</b> 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 . . . . .	<b>2a</b>	
<b>b</b> Form 100, Form 100W, Form 100S, and Form 109 filers: Enter any nonbusiness losses included in line 1 as a positive number. Form 540 and Form 540NR filers leave blank . . . . .	<b>2b</b>	
<b>c</b> Combine line 2a and line 2b . . . . .	<b>2c</b>	
<b>3</b> Form 100 or Form 100W filers: Enter the amount from Form 100 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 . . . . .	<b>3</b>	
<b>4</b> Combine line 1, line 2c, and line 3. If zero or less, enter -0- on line 6 . . . . .	<b>4</b>	
<b>5</b> Enter the average apportionment percentage from Worksheet I, Section A, line 4 . . . . .	<b>5</b>	
<b>6</b> Modified taxable income. Multiply line 4 by line 5. See instructions . . . . .	<b>6</b>	

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

**Combined Report**

Corporations that are members of a unitary group filing a 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 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 LAMBRA NOL carryover, complete Worksheet II.

A LAMBRA NOL carryover deduction can offset only business income attributable to operations within the former LAMBRA. Use this worksheet to compute the LAMBRA NOL carryover deduction for individuals, exempt trusts, and corporations.

**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 Form 1040 or Form 1040-SR, 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 return, do not include the amount of loss that was claimed in your current year business income for the LAMBRA.

**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 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 LAMBRA NOL carryover deduction. The LAMBRA 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 8o, column (b) to column (e). 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) Carryover from prior year	(c) Amount deducted this year	(d) Balance available to offset losses	(e) LAMBRA NOL carryover
\$ 500	\$ 500	\$5,000	\$ 0

**Line 9** – Total the amounts in columns (b), (c), and (e). Enter the totals from column (b) and column (e) on form FTB 3807, Side 1, line 3a and line 3c, accordingly.

Your LAMBRA 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 credit carryover you can claim on your California tax return is limited by the amount of tax attributable to LAMBRA business income. The amount of tax attributable to the LAMBRA business income is computed in this schedule. For corporations and other entities doing business in the former LAMBRA, the LAMBRA business income is computed in this schedule using the LAMBRA apportionment factor formula computed on Worksheet I, Section A. For individuals, the LAMBRA business income is computed on Worksheet I, Section B. Use Schedule Z on form FTB 3807, 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 liabilities.

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 LAMBRA credit carryovers you may claim on your California tax return is limited to the tax attributable to a specific former LAMBRA. 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.

### 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 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, LLCs classified as partnerships, and QSub), alternative minimum tax (corporations, 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 LAMBRA Credits

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

#### Carryover

If the amount of credit carryover available this year exceeds your LAMBRA business 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 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 **198** to claim the LAMBRA hiring credit 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 LAMBRA business income from all sources by completing the Schedule Z to determine

the amount of LAMBRA 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 LAMBRA. For corporate partners, report the distributive share of the former LAMBRA 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 LAMBRA.
- Separately state the distributive or pro-rata share of any business capital gains and losses apportioned to the former LAMBRA included in the amount above.

**S Corporations**

Complete only Part I and Part III of Schedule Z if the S corporation's 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 LAMBRA 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 LAMBRA 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 filing a combined report, the business income of each corporation doing business in the former LAMBRA 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 Part II instructions for the definition of trade or business income.

**Line 2 –** If your business is located entirely within the former LAMBRA, 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 LAMBRA.

**Line 6a –** Compute the tax as if the former LAMBRA 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 LAMBRA credit carryovers this year. Complete Part IV of Schedule Z to compute the amount of credit carryover.

**Example: Determination of LAMBRA 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 LAMBRA and one outside the former LAMBRA. Eighty percent (80%) of the S corporation's business is attributable to the former LAMBRA.

This percentage was determined by ABC, Inc. using 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 LAMBRA.

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 LAMBRA business income (total amount to be reported on line 3) is computed as follows:

John's LAMBRA salary (\$100,000 x 50%) . . . . .	\$50,000
Jackie's LAMBRA 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 LAMBRA business income

(Schedule Z, Part I, line 3) . . . . . \$156,000

The standard deduction and personal or dependency exemptions are not included in the computation of LAMBRA 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 LAMBRA 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), the corporation cannot use its LAMBRA credits 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 LAMBRA 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 3807, 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, and 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 LAMBRA 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 3807, 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, and 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 amount of 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 LAMBRA 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 LAMBRA 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 3807, 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 the amount from Schedule Z, Part IV, line 12, column (d).

**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 LAMBRA business income of \$7,000 on Schedule Z, line 7. The business has the following credits:

Hiring credit carryover	—	\$ 500
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 LAMBRA 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	500	
		B	500	—0—	500		—0—
9	Sales or use tax credit carryover	A			6,500	6,500	
		B	9,000	—0—	9,000	6,500	2,500

# 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](http://ftb.ca.gov/forms).

Access other state agencies' websites at [ca.gov](http://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](http://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](http://ftb.ca.gov)  
Teléfono: 800.852.5711  
dentro de los Estados Unidos  
916.845.6500  
fuera de los Estados Unidos  
800.822.6268  
TTY/TDD: 800.822.6268  
para personas con discapacidades  
auditivas o del habla  
711 ó 800.735.2929  
servicio de relevo de California

## LAMBRA Contact Information

For business eligibility or zone related information, including questions regarding LAMBRA geographic boundaries and vouchering, contact the HCD or the local zone program manager where the business is located. Go to [hcd.ca.gov](http://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](http://hcd.ca.gov)  
Telephone: 916.263.2771

or for tax-specific information contact:

FRANCHISE TAX BOARD  
Website: [ftb.ca.gov](http://ftb.ca.gov)  
Telephone: 916.845.3464