# 2020 Instructions for Schedule P (541)

## Alternative Minimum Tax and Credit Limitations – Fiduciaries

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).

## What's New

**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 of less than $1,000,000 or with disaster loss carryovers are **not** affected by the NOL suspension rules. For more information, get form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Limitations – Individuals, Estates, and Trusts.

**Business 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" by more than $5,000,000. Business credits should be applied against "net tax" before other credits. 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. For more information, see the instructions for Part IV, Credits that Reduce Tax.

**Natural Heritage Preservation Credit** – The Natural Heritage Preservation Credit expired on June 30, 2020. All qualified contributions must be made on or before that date. For more information, get form FTB 3503, Natural Heritage Preservation Credit.

**New Donated Fresh Fruits or Vegetables Credit** – For taxable years beginning on or after January 1, 2020, and before January 1, 2022, the list of qualified donation items has been expanded to include raw agricultural products and processed foods. For more information, get form FTB 3814, New Donated Fresh Fruits or Vegetables Credit.

**Program 3.0 California Motion Picture and Television Production Credit** – For taxable years beginning on or after January 1, 2020, California Revenue and Taxation Code (R&TC) Section 17053.98 allows a third film credit, **program 3.0**, against tax. The credit is allocated and certified by the California Film Commission (CFC). The qualified taxpayer can:

- Offset the credit against income tax liability.
- Sell the credit to an unrelated party (independent films only).
- Assign the credit to an affiliated corporation.
- Apply the credit against qualified sales and use taxes.

For more information, get form FTB 3541, California Motion Picture and Television Production Credit, form FTB 3551, Sale of Credit Attributable to an Independent Film, go to **ftb.ca.gov** and search for **motion picture**, or go to the CFC website at **film.ca.gov** and search for **incentives**.

**Main Street Small Business Tax Credit** – For the taxable year beginning on or after January 1, 2020, and before January 1, 2021, a Main Street Small Business Tax Credit is available to a qualified small business employer that received a tentative credit reservation from the California Department of Tax and Fee Administration (CDTFA). For more information, get form FTB 3866, Main Street Small Business Tax Credit.

## General Information

In general, for taxable years beginning on or after January 1, 2015, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2015. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to **ftb.ca.gov** and search for **conformity.** Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540), California Adjustments - Residents, or Schedule CA (540NR), California Adjustments - Nonresidents or Part-Year Residents, and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the instructions. Taxpayers should not consider the instructions as authoritative law.

**Net Operating Loss (NOL) Carrybacks**

For taxable years beginning on or after January 1, 2019, NOL carrybacks are **not** allowed.

## A Purpose

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

## B Who Must File

Fiduciaries must use Schedule P (541), Alternative Minimum Tax and Credit Limitations – Fiduciaries, to figure the following:

- Income distribution deduction on an AMT basis
- Estate's or trust's alternative minimum taxable income (AMTI)
- Estate's or trust's AMT

Fiduciaries must also use Schedule P (541) if any of the following apply:

- Figure credits that must be limited by the tentative minimum tax (TMT) (Part III, line 8)
- Figure credits that may reduce the AMT (Part III, line 10)
- Claim more than one credit

Every estate or trust that takes an income distribution deduction under IRC Section 651 or Section 661 must complete Schedule P (541), Part I, to figure its AMTI, and Part II to figure the income distribution deduction on an AMT basis. Part III should be completed only if the estate or trust is liable for AMT (Part I, line 10 is more than $49,851) or is claiming credits. In all instances, attach Schedule P (541) to Form 541, California Fiduciary Income Tax Return.

## C Recordkeeping

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

For regular tax, some deductions may result in carryovers to future taxable years. Examples are investment interest expense, NOL, and capital loss. Because you may have to refigure these items to determine AMT for the estate or trust, the carryover amount may be different for AMT than for regular tax. Although the carryovers that you figure for AMT do not affect the carryovers for regular tax, you must keep track of the AMT carryovers in order to complete your Schedule P (541) in future years.

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

If the estate or trust is a shareholder of an S corporation, partner in a partnership, or a member of an LLC, you must take into account the estate's or trust's distributive share of income and deductions that enter into the computation of the estate's or trust's adjustments and tax preferences.

If the estate or trust is a beneficiary of another estate or trust, you must include the adjustment for AMT shown on Schedule K-1 (541), Beneficiary's Share of Income, Deductions, Credits, etc., line 12a.

## E Allocation of Deductions to Beneficiaries

The distributable net AMTI of the estate or trust does not include amounts of depreciation, depletion, or amortization that are allocated to the beneficiaries, just as the distributable net income of the estate or trust does not include these items for regular tax.

Report separately on Schedule K-1 (541), line 12, any adjustments or tax preferences attributable to depreciation, depletion, or amortization that were allocated to beneficiaries.

## F Optional Write-off for Certain Adjustments and Tax Preferences

Under IRC Section 59(e), the estate or trust may elect to deduct certain adjustments and tax preferences ratably over a period of time. If this election is made, the optional write-off period is used for regular tax and there is no AMT adjustment on Schedule P (541). The items for which this election can be made are:

- Circulation expenditures under IRC Section 173(a).
- Research and experimental expenditures under IRC Section 174(a).
- Intangible drilling and developmental expenditures under IRC Section 263(c).
- Development expenditures for mines and natural deposits under IRC Section 616(a).
- Mining and exploration expenditures under IRC Section 617(a).
- Grapevines replanted as a result of phylloxera infestation or Pierce's Disease.

The estate or trust may elect to deduct circulation expenditures over three years and intangible drilling and developmental expenditures over 60 months. The estate or trust may elect to deduct the remaining items over 10 years. For intangible drilling and developmental expenditures, the write-off period begins with the month the expenditure was paid or incurred.

The election must be made in the year of the expenditure and may be revoked only with the consent of the Franchise Tax Board (FTB). If the estate or trust made the election for any of the above items, do not adjust for those items on this schedule. See IRC Section 59(e) for more information.

**Additional information**
For more information, get federal Schedule I (Form 1041), Alternative Minimum Tax – Estates and Trusts.

## G Alternative Minimum Taxable Income (AMTI) Exclusion

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

- Own or have an ownership interest in a trade or business.
- Have **aggregate gross receipts, (less returns and allowances)** during the taxable year of less than $1,000,000 from **all** trades or businesses for which you are the owner or have an ownership interest. Gross receipts may include, but are not limited to, items reported on federal Schedules C, Profit or Loss from Business; D, Capital Gains and Losses; E, Supplemental Income and Loss (other than income from a trust); or F, Profit or Loss from Farming; and from federal Form 4797, Sales of Business Property (figured in accordance with California law); or California Schedule D-1, Sales of Business Property (if required to complete it), that are associated with a trade or business. In the case of an ownership interest, you include only the proportional share of gross receipts of any trade or business from a S corporation, partnership, regulated investment company (RIC), a real estate investment trust (REIT), or real estate mortgage investment conduit (REMIC) in accordance with your ownership interest in the enterprise.

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

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

**Proportionate interest** means:

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

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

**Eligibility**
The AMTI exclusion is only available for the AMTI of the estate or trust. The exclusion may not be passed through to beneficiaries. Therefore, if the estate or trust qualifies for this exclusion, it must complete two Schedules P (541): one for the estate's or trust's computation of AMTI and AMT, and one for the computation of AMTI, adjustments and preference items on Schedule K-1 (541).

The fiduciary should complete the first Schedule P (541) for the estate or trust as follows:

1. Make no entry for AMT adjustments and tax preferences attributable to any trade or business of the estate or trust (line 4 items).
2. Enter all taxable income attributable to any trade or business of the estate or trust on line 7b.

The fiduciary should complete the second Schedule P (541) for the **beneficiary** as follows:

1. Enter the AMT adjustments and tax preferences attributable to any trade or business of the estate or trust on the appropriate lines (line 4 items).
2. Make no entry on line 7b.

See second Schedule P (541) when entering AMTI and adjustments and taxable preference items on Schedule K-1 (541), line 12. The estate or trust should also have completed a second Schedule P (541) for the prior taxable year, and refer to it to compute the amount for Schedule K-1 (541), line 11(d), if applicable.

## H Internet Access

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

Access other California state agency websites at **ca.gov**.

## Specific Line Instructions

### Part I – Fiduciary's Share of Alternative Minimum Taxable Income (AMTI)

**Line 2 – Net operating loss (NOL) deduction**
For more information, see form FTB 3805V.

**Line 4 – Adjustments**
For line 4a through line 4s, enter each adjustment as a positive amount unless instructed otherwise.

**Line 4a – Interest**
In determining the AMTI, qualified residence interest, other than qualified housing interest defined in IRC Section 56(e), is not allowed as a deduction. Only home mortgage interest that meets the definition of "qualified housing interest" is deductible for AMT purposes. The AMT adjustment is that portion of home mortgage interest deductible for regular tax purposes that is not qualified housing interest.

**Qualified housing interest.** Qualified housing interest is interest paid or accrued by the trust or estate on debt incurred to acquire, construct, or substantially rehabilitate a residence held by the estate or trust that secures the debt and is utilized by a beneficiary of the estate or trust as his or her primary residence or second home. The beneficiary must also have a present interest or an interest in the residuary of the estate or trust.

**Investment interest expense.** Also enter on this line any investment interest expense adjustment. If you completed form FTB 3526, Investment Interest Expense Deduction, refigure the investment interest expense using a second form FTB 3526.

Complete line 1 through line 8. Follow the form FTB 3526 instructions for line 1 through line 8, except for the following:

- When completing line 1, include any interest expense from Schedule P (541), line 4a, that was paid or accrued on indebtedness properly attributable to property held for investment within the meaning of IRC Section 163(d)(5). An example is interest on a home equity loan whose proceeds were invested in stocks or bonds. This interest might be deductible as home mortgage interest for regular tax, but is not deductible for AMT.
- When entering the 2019 disallowed investment interest expense on line 2, use the 2019 AMT disallowed investment interest expense.
- When completing line 4f, refigure the gross investment income, any net gain from the disposition of property held for investment, and any investment expenses, by taking into account all of the AMT adjustments and tax preferences that apply.

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

**Line 4b – Personal property taxes and real property taxes**
Enter on this line any state and local personal property taxes and state, local, or foreign real property taxes that are included on Form 541, line 11.

**Line 4c – Miscellaneous itemized deductions from Form 541, line 15b**
Miscellaneous itemized deductions subject to the 2% adjusted gross income (AGI) limitation are not deductible for AMT purposes.

**Line 4d – Refund of personal property taxes and real property taxes**
Enter on this line any refunds of taxes the estate or trust received in 2020 if all the following apply:

- Are those described in line 4b above
- Are attributable to a taxable year after 1986
- Were deducted in a taxable year after 1986

**Line 4e – Depreciation of property placed in service after 1986**
If you filed federal Schedules C, E, or F and have tangible property which you began depreciating after 1986, you must use the Alternative Depreciation System (ADS) to calculate AMT depreciation as follows:

**Property placed in service before 1999.** For property placed in service before 1999, refigure the AMT depreciation using the ADS, with the same convention used for the regular tax. See the following table for the method and recovery period to use.

**Property placed in service before 1999**

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

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

For more information, get federal Schedule I (Form 1041); federal Publication 946, How to Depreciate Property; or see IRC Section 168(g).

**Certain grapevines.** Grapevines that were replanted as a result of phylloxera infestation or Pierce's Disease that are depreciated over 5 years for regular tax, must be depreciated over 10 years for AMT.

**S corporation shareholders, partners, LLC members.** Enter the amount shown on the Schedule K-1 (100S, 565, or 568), Share of Income, Deductions, Credits, etc., issued by your S corporation, partnership, or LLC for post-1986 depreciation.

Enter on line 4e the difference between depreciation for regular tax and depreciation for AMT. To figure the AMT adjustment on this line, subtract the depreciation figure calculated for AMT from the depreciation allowed for regular tax. If the depreciation calculated for AMT is greater than the depreciation allowed for regular tax, enter the adjustment as a negative amount. **Do not** include depreciation from the following:

- An activity for which the estate or trust is not at risk
- Amounts received from a S corporation, partnership, or LLC if the basis limitations under IRC Section 704(d) or Section 1366(d) apply
- A passive activity
- A tax shelter farm activity

Instead, include these depreciation adjustments when figuring the adjustments on line 4l, line 4m, or line 4n, whichever applies.

**Line 4f – Circulation and research and experimental expenditures paid or incurred after 1986**
If the estate or trust elected the optional 3-year write-off period for circulation expenditures and/or the optional 10-year write-off period for research and experimental expenditures under IRC Section 59(e), skip this line.

**Circulation expenditures.** For regular tax, IRC Section 173 allows a deduction for the full amount of circulation expenditures in the taxable year paid or incurred. For AMT, these expenditures must be amortized over three years beginning with the year the expenditures were paid or incurred. Enter on this line the difference between the AMT deduction and the regular tax deduction. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount.

**Research and experimental expenditures.** For regular tax, IRC Section 174(a) allows a deduction for research and experimental expenditures in the taxable year paid or incurred. For AMT, these expenditures must be amortized over a 10-year period. To figure the AMT adjustment, subtract the amortization figured for AMT from the amortization allowed for regular tax. If the AMT amortization is greater than regular tax amortization, enter the adjustment as a negative amount. Otherwise, enter the difference as a positive amount.

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

**Line 4g – Mining exploration and development costs paid or incurred after 1986**
If the estate or trust elected the optional 10-year write-off under IRC Section 59(e), skip this line.

For regular tax, IRC Sections 616(a) and 617(a) allow a deduction for mining exploration and development costs in the taxable year paid or incurred. For AMT, these costs must be capitalized and amortized over 10 years beginning with the taxable year the expenditures were paid or incurred. Enter the difference between the AMT mining amortization and the regular tax mining deduction. If the AMT mining amortization is more than the regular tax mining deduction, enter the adjustment as a negative amount.

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

**Line 4h – Long-term contracts entered into after February 28, 1986**
For AMT, the percentage-of-completion method of accounting described in IRC Section 460(b) generally must be used. This rule does not apply to home construction contracts, as defined in IRC Section 460(e)(6).

To figure the AMT adjustment, subtract the amount computed using the percentage-of-completion method for AMT from the amount allowed for regular tax. If the amount for AMT is less than the amount computed for regular tax, enter the difference as a negative amount.

**Line 4i – Amortization of pollution control facilities placed in service after 1986**
For regular tax, the estate or trust may elect to amortize the basis of a certified pollution control facility over 60 months.

For facilities placed in service before 1999, the AMT deduction is figured using the ADS described in IRC Section 168(g). Use the federal Class Life Asset Depreciation Range System (ADR) under the straight-line method.

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

To figure the AMT adjustment on line 4i, subtract the amount figured for AMT from the amount allowed for regular tax. If the AMT pollution control facilities depreciation is more than the regular tax pollution control facilities amortization, enter the difference as a negative amount.

**Line 4j – Installment sales of certain property**
If, for regular tax purposes, the estate or trust used the installment method to report any non-dealer disposition of property that occurred after August 16, 1986, but before the first day of your taxable year that began in 1990, and if the obligation that arose from the disposition was an installment obligation to which the proportionate disallowance rule applied, you must refigure your income for AMT without regard to the installment method.

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

California conforms to the repeal of the installment method alternative minimum tax adjustment for farmers for payments received in taxable years beginning on or after January 1, 1997, for installment sales made in income years beginning after December 31, 1987.

**Line 4k – Adjusted gain or loss (including incentive stock options)**
The estate or trust will have an entry on this line only if it reported a gain or loss from the sale or exchange of business or income-producing property on California Schedule D (541), Capital Gain and Loss, Schedule D-1 or federal Form 4684, Casualties and Thefts.

Generally, if the estate or trust reported a gain or loss from the sale or exchange of mutual funds, stocks, or bonds, there will not be an entry on this line.

Figure the AMT adjustment for this line as follows:

**Step 1 –** Refigure the adjusted basis of the asset sold by taking into account any AMT adjustments you made this year or in previous years for depreciation (see line 4e), circulation and research and experimental expenditures (see line 4f), mining cost (see line 4g), pollution control facilities (see line 4i), and incentive stock options (see line 4k).

**Step 2 –** Refigure your gain or loss using the adjusted basis figured in Step 1.

**Step 3 –** Figure the difference between the refigured gain or loss for AMT and the gain or loss reported for regular tax. Enter the result on line 4k. Enter the difference as a negative if any of the following apply:

- The AMT gain is less than the regular tax gain.
- The AMT loss is more than the regular tax loss.
- You have an AMT loss and a regular tax gain.

**Incentive stock options (ISOs).** For regular tax, no income is recognized when an ISO, as defined in IRC Section 422(b), is granted or exercised. However, this rule does not apply for AMT for ISOs exercised after December 31, 1987. Instead, the estate or trust must include the excess, if any, of:

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

Increase the AMT basis of any stock acquired through the exercise of an ISO by the amount of the adjustment. Do not make an AMT adjustment if the estate or trust exercised an ISO and disposed of that stock in the same year.

**Line 4l – Certain loss limitations**
If you include adjustments or preferences on this line, **do not** include them on any other line of this schedule. If the loss is from a passive activity, use line 4n instead. If the loss is from a tax shelter farm activity (that is not passive), use line 4m.

For AMT, refigure certain limited losses using the AMT adjustments and tax preferences. Refigure the gains and losses from activities for which the estate or trust is not at risk. Also, refigure the basis limitations that apply to S corporations and partnerships. See IRC Sections 59(h), 465, 704(d), and 1366(d).

Enter on this line the difference between AMT limited losses (from activities reported on federal Schedules C, E, F, or federal Form 4835, Farm Rental Income and Expenses), and the regular tax limited losses from these activities. If the AMT limited loss is less than the regular tax limited loss, enter the difference as a negative amount.

**Line 4m – Tax shelter farm activities**
If you include AMT adjustments or tax preferences on this line, **do not** include them on any other line of this schedule.

Complete this line only if the estate or trust has a gain or loss from a tax shelter farm activity, as defined in IRC Section 58(a)(2), that is **not** a passive activity. If the tax shelter farm activity is a passive activity, you must include it with other passive activities on line 4n.

Refigure all gains and losses reported for regular tax from tax shelter farm activities using the AMT adjustments and preferences.

Figure the tax shelter farm activity gain or loss for AMT using the same rules used for regular tax except for the following:

- Do not take any refigured loss unless the estate or trust is insolvent, see IRC Section 58(c)(1).
- Do not offset gains from other tax shelter farm activities with the refigured loss.

Suspend and carry over the loss to future taxable years until one of the following applies:

- There is a gain in a future taxable year from that same activity.
- The activity is disposed of.

Enter on this line the difference between the tax shelter farm loss for AMT and regular tax.

**Line 4n – Passive activities**
If you include AMT adjustments or preferences on this line, **do not** include them on any other line of this schedule.

The estate or trust may want to complete a second form FTB 3801, Passive Activity Loss Limitations, and the other forms or schedules on which passive activities are reported to figure this adjustment.

Several types of adjustments may be entered on this line.

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

**Publicly traded partnership (PTP).** If the estate or trust had a loss from a PTP, it will have to refigure the loss using any AMT adjustments, tax preferences, and any AMT prior year unallowed loss.

**Tax shelter passive farm activities.** Refigure any gain or loss from a tax shelter passive farm activity. Take into account all AMT adjustments, tax preferences, and AMT prior year unallowed losses. Do not include a tax shelter passive farm activity loss on your AMT form FTB 3801. Instead, carry the loss forward to offset against future tax shelter passive farm activities.

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

**Line 4o – Beneficiaries of other trusts or decedent's estates**
If the estate or trust is a beneficiary of another estate or trust, enter on this line the amount from Schedule K-1 (541), line 12a. This is the estate's or trust's share of the distributable AMTI from the other estate or trust.

**Line 4p – Depletion**
For AMT, if the depletion deduction for mines, wells, and other natural deposits determined under IRC Section 611 exceeds the adjusted basis of the property at the end of the taxable year, the estate or trust will have a depletion adjustment. To figure the adjusted basis, use the rules in IRC Section 1016 but do not reduce the adjusted basis by current-year depletion. Figure the excess amount separately for each property. Enter on this line only the depletion amount that exceeds the adjusted basis. Get the instructions to federal Schedule I (Form 1041), line 6 for more information.

California conforms to the federal repeal of the AMT depletion adjustment for independent oil and gas producers and royalty owners. For more information, get federal Form 6251, Alternative Minimum Tax – Individuals, and instructions. However, your California depletion costs may continue to be different from the federal amounts because of prior differences in law and different basis.

**Line 4q – Intangible drilling costs**
If the estate or trust elected the optional 60-month write-off under IRC Section 59(e) for all property in this category, skip this line.

For AMT, intangible drilling costs (IDCs) from oil, gas, and geothermal wells are preferences if the excess IDCs exceed 65% of the net income from the wells. Figure the preference for oil and gas properties separate from geothermal properties. To figure excess IDCs:

A. Figure the amount of the IDCs allowed for regular tax under IRC Section 263(c). Do not include any deduction for nonproductive wells. Refigure the IDCs allowed for AMT by amortizing them over 120 months, starting with the month the well was placed in production. Then subtract the AMT IDCs from the regular tax IDCs to get the excess IDCs. The estate or trust may elect to use any other method that is allowed in determining cost depletion.
B. Figure net income by reducing the gross income, from all oil, gas, and geothermal wells that was received or accrued during the taxable year by any deductions allocable to these properties (reduced by the excess IDCs). Use only income and deductions allowed for AMT.
C. Multiply the net income by 65% (.65). Subtract the result from the excess IDCs figured in Step A. This is the excess IDCs. Enter the result on line 4q.

**Exception.** The preference for IDCs from oil and gas wells does not apply to taxpayers who are independent producers, i.e., not integrated oil companies as defined in IRC Section 291(b)(4). However, this benefit may be limited. First, figure the IDC preference as if this exception did not apply. Then, for purposes of this exception, complete Schedule P (541) through line 6, including the IDC preference. If the amount of the IDC preference exceeds 40% of the amount figured for line 6, enter the excess on line 4q (the benefit of this exception is limited). If the amount of the IDC preference is equal to or less than 40% of the amount figured for line 6, do not enter an amount on line 4q (the benefit of this exception is not limited).

**Line 4r – California qualified stock options**
Include the amount of compensation excluded from the employee's gross income for regular tax from the exercise of California qualified stock options (CQSOs). This amount is the difference between the FMV of the corporation's stock on the date the option is exercised and the amount the employee paid for the stock.

**Line 4s – Other adjustments**
Include on this line:

- **Patron's adjustment.** Distributions the estate or trust received from a cooperative may be includible in income. Unless the distributions are nontaxable, include on line 4s the total AMT patronage dividend and per-unit retain allocation adjustment reported to the estate or trust by the cooperative.
- **Related adjustments.** AMT adjustments and tax preferences may affect deductions that are based on an income limit other than AGI or modified AGI (e.g., farm conservation expenses). Refigure these deductions using the income limit as modified for AMT. Include the difference between the regular tax and AMT deduction on line 4r. If the AMT deduction is more than the regular tax deduction, include the difference as a negative amount.

Do not make an adjustment on line 4s for an item you refigured on another line of Schedule P (541).

**Line 7a – Alternative minimum tax NOL deduction**
For taxable years beginning on or after January 1, 2020, and before January 1, 2023, California has suspended the NOL carryover deduction. Taxpayers may continue to compute and carryover an NOL during the suspension period. **However**, taxpayers with net business income or modified AGI of less than $1,000,000 or with disaster loss carryovers are **not** affected by the NOL suspension rules. For more information, get form FTB 3805V.

For loss years beginning after 1986, reduce any NOL by any positive AMT adjustments in that year. Increase the NOL by negative adjustments. Also, reduce the NOL by any tax preferences, but only to the extent they increase the NOL figured for regular tax.

**Line 7b – AMTI exclusion**
Qualified taxpayers shall exclude income from any trade or business when figuring AMTI. If you are a qualified taxpayer (see General Information G, Alternative Minimum Taxable Income (AMTI) Exclusion), enter your taxable trade or business income on line 7b. If zero or less, enter -0-.

## Part II – Income Distribution Deduction on an Alternative Minimum (AMT) Tax Basis

**Line 5 –** Enter any capital gains that were paid or permanently set aside for charitable purposes from the current year's income included on Form 541, Schedule A, Charitable Deduction, line 1c.

**Line 6 and Line 7 –** Capital gains and losses must take into account any basis adjustments from Part I, line 4k.

**Line 15 – Income distribution deduction on an AMT basis**
Allocate the income distribution deduction computed on an AMT basis among the beneficiaries in the same manner as income was allocated for regular tax. Report each beneficiary's share on the respective Schedule K-1 (541), line 12a.

## Part III – Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation

**Line 9 –** Enter the total of the estate's or trust's regular tax from Form 541, line 21a.

## Part IV – Credits That Reduce Tax

**Business Credit Limitations**

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" by more than $5,000,000.

**How to compute the limitation**

The limitation only applies to business credits and does not apply to the following credits:

- Earned income tax credit
- Young child tax credit
- Credit for household and dependent care
- Credit for adoption costs
- Renter's tax credit
- Personal exemption credit
- Credit for qualified joint custody head of household and a qualified taxpayer with a dependent parent
- Credit for qualified senior head of household
- Credit for low-income housing
- Excess contributions of unemployment compensation

The credits listed above are required to be applied after any business credits are applied.

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.

Taxpayers are required to keep track of the disallowed business credits on a worksheet and provide it to the FTB upon request.

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

**Use Part IV to determine the following:**

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

**Before you begin Part IV:**

- Complete Form 541 through line 22.
- Figure the amount of your credits using the credit form or worksheet identified in the Credit Table below. Attach the credit form to your tax return if one is required.

**To complete Part IV:**

- Complete line 1 through line 3 to figure the amount of excess tax you may offset by credits.
- Identify which sections of Part IV you may take your tax credits. Credits without carryover provisions are listed on Schedule P (541) in Section A1 and Section B2 and may be taken only in those sections. The table below identifies the sections of Part IV in which you may take these tax credits.
- If you have credits in Section B, complete line 10 in addition to the lines for your credits.
- If your credit is taken in Section A2 or Section B1, enter the credit code and the credit name in the space provided. See the Credit Table below.
- Complete column (a) through column (d) for each line on which you are taking a credit. See "Column Instructions" below.
- If your credits are taken in more than one section, complete each section before going to the next section.
- Once you have completed Part IV, see "How to Claim Credits" below.

**Section A Instructions**

**Line 3 –** Subtract line 2 from line 1. If the amount is zero or less, go to Question 1. If the amount is greater than zero, go to the Section A1 instructions.

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

   **Yes** You may not take the credit this year. Go to question 2.
   **No** Go to Section B to figure the amount of credit you may take this year. Then continue to Section C if your credit is listed in that section.

2. Does the credit have carryover provisions?

   **Yes** Enter the credit code, credit name, and credit amount in column (a) of the section indicated by the table. Enter -0- in column (b). Enter the credit amount in column (d). This is the amount of the credit you may carry over and use in future years.
   **No** You may not take the credit this year or in future years.

**Section A1 Instructions**

**Line 4 –** If you have a credit listed in this section, complete column (a) through column (c).

For taxable years beginning on or after January 1, 2020, and before January 1, 2023, if the taxpayer did not claim all or a portion of the Prison Inmate Labor credit due to the $5,000,000 business credit limitation, only the disallowed portion of the credit may be carried over by the number of taxable years the credit is not allowed.

**Section A2 Instructions**

**Line 5 through Line 9 –** Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

**Credit for Prior Year Alternative Minimum Tax**
The prior year AMT credit must be applied before any credits that can reduce the regular tax below the TMT. Get form FTB 3510, Credit for Prior Year Alternative Minimum Tax – Individuals or Fiduciaries, to see if the estate or trust qualifies for the credit.

**Section B1 Instructions**

**Line 11 through Line 14 –** Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) before going to the next section.

Generally, it is to your advantage to apply credits with limited carryovers before credits with no limitation on the carryover. However, you may want to apply credits with no limitation on carryover first if that is more advantageous in your case.

**Section B2 Instructions**

**Line 15 –** If you have another state tax credit, complete column (a) through column (c).

**Section C Instructions**

**Line 17 and Line 18 –** If you have any of the credits listed in this section, complete column (a) through column (d) for each credit in the order listed.

**Column Instructions –** In column:

(a) Enter the amount of credit available to offset tax.

(b) Figure the amount of credit you are able to use this year by entering the smaller of the amount in column (a) or the amount in column (c) from the previous line. If the taxpayer is subject to the business credit limitation, the total of the business credits in column (b) cannot exceed $5,000,000.

(c) Figure the amount of tax remaining to be offset by other credits by subtracting the amount in column (b) from the balance in column (c) of the previous line.

(d) Enter the amount of credit carryover available to use in future years by subtracting the amount in column (b) from the amount in column (a).

**Credit Table Instructions**

To use the table:

1. Find your credits listed in the tables below.
2. See which sections are identified in the columns under "Offset Tax in Section:"
3. Take the credit only in sections the table identifies for your credit.
4. Use the credit in the earliest section possible.
5. Complete each section before going to the next section.

**How to Claim Credits:**

Claim credits by transferring them to Form 541 or Form 109, California Exempt Organization Business Income Tax Return, as follows:

**Form 541 filers:** If only one credit is claimed, enter the credit code and amount of the credit on Form 541, line 23. If two or more credits are claimed, add the amounts from Part IV, column (b), line 4 through line 9 and line 11 through line 15. Enter the total on Form 541, line 23.

**Form 109 filers:** If one to three credits are claimed, enter the credit name, code, and amount on Form 109, Schedule B, line 1 through line 3.

If more than three credits are claimed, see Form 109, Schedule B, Tax Credits, instructions.

## Credit Table

| Code | Current Credits | Form | Offset Tax in Section |
|---|---|---|---|
| 233 | California Competes Tax | FTB 3531 | B1 |
| 235 | College Access Tax | FTB 3592 | B1 |
| 205 | Disabled Access for Eligible Small Businesses | FTB 3548 | A2 |
| 204 | Donated Agricultural Products Transportation | FTB 3547 | A2 |
| 203 | Enhanced Oil Recovery | FTB 3546 | A2 |
| 172 | Low-Income Housing | FTB 3521 | B1 |
| 213 | Natural Heritage Preservation | FTB 3503 | B1 |
| 237 | New California Motion Picture and Television Production | FTB 3541 | A2 |
| 238 | New Donated Fresh Fruits or Vegetables | FTB 3814 | A2 |
| 234 | New Employment | FTB 3554 | A2 |
| 187 | Other State Tax | Sch. S | B2 |
| 188 | Prior Year Alternative Minimum Tax | FTB 3510 | A2 |
| 162 | Prison Inmate Labor | FTB 3507 | A1 |
| 239 | Program 3.0 California Motion Picture and Television Production Credit | FTB 3541 | B1 |
| 183 | Research | FTB 3523 | B1 |
| 240 | Main Street Small Business Tax | FTB 3866 | A2 |

| Code | Repealed Credits with Carryover Provisions | Form | Offset Tax in Section |
|---|---|---|---|
| 175 | Agricultural Products | FTB 3540 | A2 |
| 223 | California Motion Picture and Television Production | FTB 3541 | A2 |
| 196 | Commercial Solar Electric System | FTB 3540 | B1 |
| 181 | Commercial Solar Energy | FTB 3540 | B1 C |
| 209 | Community Development Financial Institutions Investment | N/A | A2 |
| 224 | Donated Fresh Fruits or Vegetables | FTB 3540 | A2 |
| 194 | Employee Ridesharing | FTB 3540 | A2 |
| 190 | Employer Child Care Contribution | FTB 3540 | A2 |
| 189 | Employer Child Care Program | FTB 3540 | A2 |
| 191<br>192<br>193 | Employer Ridesharing (Large)<br>Employer Ridesharing (Small)<br>Employer Ridesharing (Transit Passes) | FTB 3540 | A2 |
| 182 | Energy Conservation | FTB 3540 | A2 |
| 176 | Enterprise Zone Hiring | FTB 3805Z | B1 |
| 176 | Enterprise Zone Sales or Use Tax | FTB 3805Z | B1 |
| 218 | Environmental Tax | FTB 3540 | A2 |
| 207 | Farmworker Housing | FTB 3540 | A2 |
| 198 | Local Agency Military Base Recovery Area Hiring | FTB 3807 | A2 |
| 198 | Local Agency Military Base Recovery Area Sales or Use Tax | FTB 3807 | A2 |
| 160 | Low-Emission Vehicles | FTB 3540 | A2 |
| 211 | Manufacturing Enhancement Area Hiring | FTB 3808 | A2 |
| 220 | New Jobs | FTB 3540 | A2 |
| 185 | Orphan Drug | FTB 3540 | B1 |
| 184 | Political Contributions | FTB 3540 | A2 |
| 174 | Recycling Equipment | FTB 3540 | A2 |
| 186 | Residential Rental & Farm Sales | FTB 3540 | A2 |
| 171 | Ridesharing | FTB 3540 | A2 |
| 200 | Salmon & Steelhead Trout Habitat Restoration | FTB 3540 | A2 |
| 180 | Solar Energy | FTB 3540 | B1 C |
| 179 | Solar Pump | FTB 3540 | A2 |
| 210 | Targeted Tax Area Hiring | FTB 3809 | B1 |
| 210 | Target Tax Area Sales or Use Tax | FTB 3809 | B1 |
| 178 | Water Conservation | FTB 3540 | A2 |