

2016 Instructions for Form FTB 3809

Targeted Tax 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).

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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 or 540NR), 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.

Targeted Tax Area (TTA) Credits Carryover Period

The portion of any TTA sales or use tax credit or hiring credit remaining for carryover to taxable years beginning on or after January 1, 2014, shall be carried over only to the succeeding 10 taxable years if necessary, or until the credit is exhausted, whichever occurs first. Any hiring credits generated in the current taxable year for employees hired on or before December 31, 2012, and unusable in the

current taxable year, may be carried over to the succeeding 10 taxable years.

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The California legislature repealed and made changes to all of the Geographically Targeted Economic Development Area (G-TEDA) Tax Incentives. Enterprise Zones (EZ) and Local Agency Military Base Recovery Areas (LAMBRA) were repealed on January 1, 2014. The Targeted Tax Areas and Manufacturing Enhancement Areas (MEA) both expired on December 31, 2012. For more information, go to ftb.ca.gov and search for **repeal tax incentives**.

Single-Sales Factor Formula

For taxable years beginning on or after January 1, 2013, R&TC Section 25128.7 requires all business income of an apportioning trade or business, other than an apportioning trade or business under R&TC Section 25128(b), to apportion its business income to California using the single-sales factor formula. For more information, get Schedule R, Apportionment and Allocation of Income, or go to ftb.ca.gov and search for **single sales factor**. However, business income apportioned to the TTA continues to be based on the property and payroll factors.

Expired Targeted Tax Area

The TTA has expired as of December 31, 2012. Generally, no further TTA incentives can be generated after the expiration date. See below for a discussion on how each incentive expired:

- TTA Hiring Credit - Taxpayers can no longer generate/incur TTA hiring credits for employees hired on or after January 1, 2013. However, qualified taxpayers can generate/incur TTA hiring credits for qualified employees hired prior to the TTA expiration date for wages paid or incurred within the 60-month period of the TTA hiring credit.
- TTA Sales or Use Tax Credit - For taxpayers engaged in a trade or business in an expired TTA, the sales or use tax credit is not available for assets purchased and/or placed in service on or after January 1, 2013. Taxpayers can claim the sales or use tax credit carryover from prior years.
- TTA NOL Carryover Deduction – Taxpayers can no longer generate/incur any TTA NOL for taxable years beginning on or after January 1, 2013. Taxpayers can claim an NOL carryover deduction from prior years.

Assignment of Credit

Credit earned by members of a combined reporting group may be assigned to an affiliated corporation that is a 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 Limitations, on page 12, Assignment of Credit, or get form FTB 3544, Election to Assign Credit Within Combined Reporting Group, or form FTB 3544A, List of Assigned Credit Received and/or Claimed by Assignee or go to ftb.ca.gov and search for **credit assignment**.

Minimum Wage

Beginning on and after January 1, 2016, the California minimum wage is \$10.00 per hour. Beginning on January 1, 2017 through December 31, 2017, the minimum wage will be \$10.50 for any employer who employs 26 or more employees.

Pass-Through Entities

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

Introduction

Economic Development Area (EDA) Tax Incentives

California established four types of EDAs that have 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 & Community Development (HCD). Final designation was when the HCD designated an area to be an EDA. Tax incentives were available to individuals and businesses operating or investing 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:

- EZ tax incentives, get FTB 3805Z, Enterprise Zone Business Booklet.
- LAMBRA tax incentives, get FTB 3807, Local Agency Military Base Recovery Area Business Booklet.
- MEA hiring credit, get FTB 3808, Manufacturing Enhancement Area Business Booklet.

References in this booklet to the "TTA" are interpreted as "the boundaries of the former TTA as it existed on December 31, 2012."

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 I on Side 1 of form FTB 3809, Targeted Tax 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 TTA tax incentives. Taxpayers operating or investing in a business located within a designated TTA may be eligible for the following credit and/or claim the following credit carryover and carryover deduction:

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

Use this booklet to determine the correct amount of credits and deductions that a business may claim for operating or investing in a business located within a designated TTA. Complete the worksheets in this booklet for each credit or deduction for which the business is eligible. Then enter the total credits and deductions on form FTB 3809.

Note: There is no Worksheet II in this booklet.

Targeted Tax Area Designation

California established the TTA program to stimulate development in a selected economically depressed area of Tulare County. The program offers special tax incentives to entities and individuals located in the Tulare TTA and engaged in a trade or business within the selected Standard Industrial Codes listed on pages 19 through 21 of this booklet.

All of the incorporated cities in Tulare County and portions of the unincorporated areas of Tulare County received final designation as the TTA effective November 1, 1998. The designation was binding for 15 years, commencing from January 1, 1998. **Note:** The TTA designation expired on December 31, 2012. The incorporated cities in Tulare County are:

- Cutler-Orosi
- Dinuba
- Earlimont
- Exeter
- Farmersville
- Goshen
- Lindsay
- Pixley
- Porterville
- Traver
- Tulare
- Visalia
- Woodlake

For business eligibility or zone related information, including questions regarding TTA geographic boundaries, contact the HCD or the local zone program manager where the

business is located. Go to hcd.ca.gov and search for **directory of zone contacts** to find Directory of Economic Development Areas.

For information that is zone-specific, but not tax-specific, you may contact the HCD. See page 26 for the HCD contact information.

Important Considerations

TTA tax incentives apply only to the following item:

- Qualified employees hired after November 1, 1998 and prior to the TTA expiration date.

Eligibility

To qualify for the tax incentive described above, a taxpayer must meet both of the following requirements:

1. Be engaged in a trade or business within the TTA.
2. Be engaged in a line of business described in Standard Industrial Classification (SIC) Codes 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299, inclusive; 4500 to 4599, inclusive; and 4700 to 5199, inclusive, of the SIC Manual published by the United States Office of Management and Budget, 1987 Edition.

In the case of any pass-through entity, the determination of whether a taxpayer is a qualified taxpayer for the hiring credit is made at the entity level. Any hiring credit that is allowed to the pass-through entity is also passed through to the partners or shareholders.

If your business is located within and outside the TTA, see Part II on page 6 for instructions on how to apportion income.

Forms Table

The titles of forms referred to in this booklet are:

Form 100	California Corporation Franchise or Income Tax Return
Form 100S	California S Corporation Franchise or Income Tax Return
Form 100W	California Corporation Franchise or Income Tax Return – Water's-Edge Filers
Form 109	California Exempt Organization Business Income Tax Return
Form 540	California Resident Income Tax Return
Long Form 540NR	California Nonresident or Part-Year Resident Income Tax Return
Form 541	California Fiduciary Income Tax Return
Form 565	Partnership Return of Income
Form 568	Limited Liability Company Return of Income
Schedule CA (540)	California Adjustments – Residents
Schedule CA (540NR)	California Adjustments – Nonresidents or Part-Year Residents
Schedule P (540)	Alternative Minimum Tax and Credit Limitations – Residents
Schedule P (540NR)	Alternative Minimum Tax and Credit Limitations – Nonresidents and Part-Year Residents
Schedule R	Apportionment and Allocation of Income

FTB Pub. 1061	Guidelines for Corporations Filing a Combined Report
Schedule C (100S)	S Corporation Tax Credits
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.
Schedule K-1 (568)	Member's Share of Income, Deductions, Credits, etc.
FTB 3544	Election to Assign Credit Within Combined Reporting Group
FTB 3544A	List of Assigned Credit Received and/or Claimed by Assignee

Who Can Claim the TTA Tax Incentives?

The TTA credits and deductions are available to individuals, sole proprietors, corporations, estates, trusts, and partnerships operating or investing in a business located within the designated TTA.

How to Claim Deductions and Credits

To claim any TTA deduction or credit, **attach** a completed form FTB 3809 to your California tax return.

Attach a separate form FTB 3809 for each business you operate or invest in that is located within the TTA. Also, complete the following schedule and/or worksheets to report credits and deductions incurred:

- Corporations complete Schedule Z and all the worksheets, except for Worksheet III, Section B.
- Sole proprietors complete Schedule Z and all the worksheets.
- For trusts, estates, and partnerships, complete Worksheet IA and Worksheet III, Section A.
- Individual investors receiving pass-through TTA **credits** complete Worksheet III, Section B and Schedule Z. All other investors complete Worksheet III, Section A and Schedule Z.
- Individual investors receiving a pass-through **loss**, and having an overall **NOL** carryover, complete Worksheet III, Section B and Worksheet IV. All other investors complete Worksheet IV.

Schedule Z is on Side 2 of form FTB 3809.

To assist with the processing of the tax return, indicate that the business operates or invests within the TTA by doing the following:

- Form 540 filers:** Claim TTA tax incentives on Form 540, line 43 through 45, as applicable.
- Long Form 540NR filers:** Claim TTA tax incentives on Long Form 540NR, line 58 through 60, as applicable.
- Form 100 filers:** Claim TTA tax incentives on Form 100, line 20, lines 24 through 26, as applicable.

- Form 100S filers:** Claim TTA tax incentives on Form 100S, line 18, lines 22 through 24, as applicable.
- Form 100W filers:** Claim TTA tax incentives on Form 100W, line 20, lines 24 through 26, as applicable.
- Form 109 filers:** Check the “Yes” box for the TTA question I at the top of Form 109, Side 1.

Keep all completed worksheets and supporting documents for your records.

Form FTB 3809 – Instructions for items A through I

For corporations, estates, trusts, partnerships, exempt organizations, and sole proprietors who operate businesses in the TTA, complete items A through I.

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

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

To qualify for the TTA hiring credit, you must be engaged in a trade or business within the selected SIC listed on page 19 through page 21 of this booklet. Enter the SIC code of the establishment that qualifies you to take this credit on form FTB 3809, Side 1. If your business has more than one establishment, and if more than one of them qualifies you to take this credit, enter the SIC code that best represents your primary qualifying establishment.

The PBA codes are based on the North American Industry Classification System published by the United States Office of Management and Budget. The PBA codes are listed on page 22 through page 24. Enter the PBA code of your principal activities on form FTB 3809, Side 1.

Part I – Credits

Line 1a – Hiring Credit

The TTA has expired as of December 31, 2012. Generally, no further TTA incentives can be generated after the expiration date. Taxpayers can no longer generate/incur TTA hiring credits for employees hired on or after January 1, 2013. **However**, qualified taxpayers can generate/incur TTA hiring credits for qualified employees hired prior to the TTA expiration date for wages paid or incurred within the 60-month period of the TTA hiring credit.

The portion of any TTA hiring credit remaining for carryover to taxable years beginning on or after January 1, 2014, shall be carried over only to the succeeding 10 taxable years if necessary, or until the credit is exhausted, whichever occurs first. Any hiring credits generated in the current taxable year for employees hired on or before December 31, 2012, and unusable in the current taxable year, may be carried over to the succeeding 10 taxable years.

Employers hiring qualified employees, were required to obtain VoucherCert 10-07 from the

local agency responsible for verifying employee eligibility on or before December 31, 2014. Do not file VoucherCert 10-07 with your tax return. Keep the voucher for your records. For vouchering deadline questions, go to hcd.ca.gov and search for **vouchering**.

Qualified employers conducting a trade or business within the TTA may claim the hiring credit for a qualified employee. A qualified employee is an individual who meets all of the following:

- Was hired after November 1, 1998, and before January 1, 2013.
- Spends at least 90% of his or her work time (for the qualified employer) on activities directly related to the conduct of a trade or business located within the TTA.
- Performs at least 50% of the work (for the qualified employer) within the boundaries of the TTA.
- Immediately preceding employment with qualified employer, was any of the following:
 1. A person receiving or eligible to receive subsidized employment, training, or services funded by the federal Job Training Partnership Act (JTPA) or its successor.
 2. A person eligible to be a voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 (GAIN) or its successor.
 3. A member of a targeted group as defined in the federal Work Opportunity Tax Credit (WOTC) or its successor.
 4. An economically disadvantaged individual 14 years of age or older.
 5. A qualified dislocated worker.
 6. A disabled individual eligible for, enrolled in, or who completed a state rehabilitation plan.
 7. A service-connected disabled veteran.
 8. A veteran of the Vietnam era.
 9. A veteran who recently separated from military service.
 10. An ex-offender.
 11. A person eligible for or a recipient of any of the following:
 - Federal Supplemental Security Income (SSI) benefits.
 - Aid to Families with Dependent Children (AFDC).
 - Food stamps.
 - State and local general assistance.
 12. A Native American.
 13. A resident of the TTA.

For more information, refer to the federal JTPA or its successor, the Workforce Investment Act (WIA).

The percentage of wages used to compute the credit depends on the number of years the employee works for the employer in the TTA. The applicable percentage begins at 50% and declines 10% for each year of employment. After the fifth year of employment, no credit can be generated.

Wages that qualify for the hiring credit are those wages paid or incurred to hire a qualified employee for the consecutive 60-month period beginning on the first day the employee commenced employment with the employer. For this purpose, commencement of employment or the hire date is the first day of employment for which the individual receives wages/compensation. For an employer that operates a business that has regularly occurring seasonal or intermittent employment decreases and increases, reemployment of an individual is not a new hire; rather, it is a continuation of the prior employment and does not constitute commencement of employment for the qualified wages test.

The credit is based on the smaller of the following:

- The actual hourly rate paid or incurred by the employer for work performed by the employee during the taxable year.
- 150% of the minimum hourly wage established by the Industrial Welfare Commission.

Where the California minimum wage was higher than the federal minimum wage, the California minimum wage was used for purposes of computing the TTA hiring credit. The minimum wage prior to July 1, 2014, was \$8.00 per hour. For purposes of computing the TTA hiring credit, 150% of the minimum wage was \$12.00 per hour. After July 1, 2014, the minimum wage was \$9.00 until January 1, 2016. For purposes of computing the TTA hiring credit, 150% of the minimum wage was \$13.50 per hour.

Example:

John Anderson was hired on January 1, 2012. John’s hourly rate for the first month was the minimum wage of \$8.00. At the beginning of the second month, his hourly rate increased to \$8.50. For the third month, John’s hourly rate increased to \$12.50. The hourly rate that qualifies for the credit is limited to 150% of the minimum wage, or \$12.00 per hour. The amount of qualified wages is computed as follows:

Month(s)	Hours x per month	Hourly = rate allowed	Qualified wages per month
1	175	\$ 8.00	\$1,400.00
2	170	\$ 8.50	\$1,445.00
3	170	\$12.00	\$2,040.00

Record Keeping

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

- Employee’s name.
- Date the employee was hired.
- Number of hours the employee worked for each month of employment.
- Smaller of the hourly rate of pay for each month of employment or 150% of the minimum wage.
- Location of the employee’s job site and duties performed.

- Records of any other federal or state subsidies received for hiring the qualified employee.
- Total qualified wages per month for each month of employment.

Instructions for Worksheet IA – Hiring Credit Computation & Recapture

Section A – Credit Computation

Line 1, column (a) – Enter the name of each qualified employee. Attach additional schedule(s) if necessary.

No other California jobs tax credit may be claimed for the same wage expense paid to employees shown in line 1, column (a).

Line 1, column (b) through column (f) – Enter in the appropriate column, the qualified wages paid or incurred during the taxable year to each employee listed in column (a).

Line 2, column (b) through column (f) – Add the amounts in each column.

Line 3, column (b) through column (f) – Multiply the total in each column of line 2 by the percentage in each column.

Line 4

- A. For partnerships, enter the amount from line 4 on form FTB 3809, Side 1, Part I, line 1a. Include the current year hiring credit amount on Form 565 and Form 568, Schedule K, line 15f and the distributive share of the credit to partners and members on Schedule K-1 line 15f. In addition, add the entire amount of the credit on Schedule K, line 1, column (c).
- B. For corporations, individuals, estates, and trusts, enter the amount from line 4 on Schedule Z, as follows:
- Part II, line 8B, column (b) for corporations, individuals, estates, and trusts.
 - Part III, line 10, column (b) for S corporations.
 - Part IV, line 12, column (b) for corporations and S corporations subject to paying only the minimum franchise tax.

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 3544A.

Credit Limitations

- The amount of hiring credit claimed may not exceed the amount of tax on TTA business income in any year. Use Schedule Z on Side 2 of form FTB 3809 to compute the credit limitation.
- The portion of any TTA 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.

- In the case where the business is qualified to take the TTA hiring credit as well as another credit (e.g., EZ, MEA, or LAMBRA hiring credit) for the same wage expense, the business may claim only one credit.
- S corporations may claim only 1/3 of the TTA hiring credit against the 1.5% entity-level tax (3.5% for financial S corporations). S corporations can pass through 100% of the credit to their shareholders. The 1/3 of the credit can be carried over if it cannot be used in the current year. The remaining 2/3 must be disregarded and may not be carried over.

Section B – Credit Recapture

Recapture the amount of credit attributable to an employee's wages if the employer terminates the employee at any time during the longer of the following:

- The first 270 days of employment (whether or not consecutive).
- 90 days of employment plus 270 calendar days.

Employers of seasonal employees must recapture the amount of hiring credit attributable to the employee's wages if both of the following apply:

- The employer terminates the employee before the completion of 270 days of employment.
- The 270 days is during the 60-month period beginning the day the employee commences employment with the employer.

A "day of employment" means any day the employee receives wage compensation (including a paid sick day, holiday, or vacation day).

The employer must add to the current year's tax the amount of credit claimed in the year of termination and all prior years in which the credit was claimed for the terminated employee.

The credit recapture does not apply if the termination of employment was any of the following:

- Voluntary on the part of the employee.
- In response to misconduct of the employee.
- Caused by the employee becoming disabled (unless the employee was able to return to work and the employer did not offer to reemploy the individual).
- Carried out so that other qualified individuals could be hired, creating a net increase in both the number of qualified employees and the number of hours worked.
- Due to a substantial reduction in the employer's trade or business operations.

Enter the name(s) of employee(s) even if one of the above exceptions to recapture is met.

Line 1, column (a) – Enter the name of the terminated employee(s). Attach additional schedule(s) if necessary.

Line 1, column (b) – Enter the amount of credit recapture for each employee listed in column (a).

Line 2 – Enter the amount from line 2, column (b) on form FTB 3809, Side 1, Part IV, line 4.

Also, include the amount of hiring credit recapture on your California tax return or schedule as follows:

- Form 100, Schedule J, line 5.
- Form 100S, Schedule J, line 5 and Schedule K-1 (100S), line 17d.
- Form 100W, Schedule J, line 5.
- Form 109, Schedule K, line 4.
- Form 540, line 63.
- Long Form 540NR, line 73.
- Form 541, line 37 and Schedule K-1 (541), line 14d.
- Form 565, Schedule K, line 20c and Schedule K-1 (565), line 20c.
- Form 568, Schedule K, line 20c and Schedule K-1 (568), line 20c.

Indicate that you included the hiring credit recapture on your tax return by writing "FTB 3809" in the space provided on the schedule or form.

Partnerships identify the recapture amounts for their partners and members on Schedule K-1 (565 or 568).

S corporation shareholders must recapture the portion of the credit that was previously claimed, based on the terminated employee's wages. In addition, identify the recapture amount for shareholders on Schedule K-1 (100S). This amount will differ from the amount recaptured by the S corporation on Form 100S, Schedule J.

Line 1b – Sales or Use Tax Credit Carryover

The TTA has expired as of December 31, 2012. Generally, no further TTA incentives can be generated after the expiration date. For taxpayers engaged in a trade or business in an expired TTA, the sales or use tax credit may only be generated for qualified property purchased on or before December 31, 2012, and placed in service on or before December 31, 2012. The sales or use tax credit is not available for assets purchased and/or placed in service on or after January 1, 2013.

You may claim a credit carryover for the sales or use tax paid or incurred on qualified property under R&TC Sections 17053.33 and 23633, only if a carryover is available from taxable years 1998 through 2012.

Credit Limitations

- The amount of sales or use tax credit carryover claimed may not exceed the amount of tax on the TTA business income in any year.
- The portion of any TTA sales or use tax 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.

Worksheet IA Hiring Credit Computation & Recapture – Targeted Tax Area

Section A Hiring Credit Computation. You cannot take the TTA hiring credit and another credit for the same wage expense.

Qualified wages paid or incurred for year of employment						
(a) Employee's name	(b) 1st year	(c) 2nd year	(d) 3rd year	(e) 4th year	(f) 5th year	
1						
2 Total. See instructions						
	.50	.40	.30	.20	.10	
3 Multiply line 2 by the percentage for each column. See instructions						
4 Add line 3, column (b) through column (f). See instructions.						4

Section B Hiring Credit Recapture

(a) Terminated employee's name	(b) Recapture amount
1	
2 Total amount of credit recapture. Add the amount in column (b). See instructions for where to report on your California tax return	2

• In the case where the business is qualified to take the TTA sales or use tax credit as well as another state credit (e.g. enterprise zone sales or use tax credit, or LAMBRA sales or use tax credit) for the same piece of property, the business may only claim one credit for that property.

Part II – Portion of Business Attributable to the Targeted Tax Area

TTA tax credits are limited to the tax on business income attributable to operations within the TTA. TTA deductions are limited to business income attributable to operations within the TTA. If the business is located within and outside the TTA, determine the portion of total business operations that are attributable to the TTA. Each taxpayer must complete one form FTB 3809 for each zone, and therefore, must also compute the income limitation for each zone.

Business Income vs. Nonbusiness Income

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

For corporations and entities doing business in and outside of the TTA, use Worksheet III, Section A, to determine the TTA apportionment factor to determine the amount of business income attributable to the Targeted Tax Area.

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 TTA.

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

Report these items as other information on Schedule K-1 (100S, 541, 565, or 568.)

For an individual, use Worksheet III, Section B to determine business income attributable to the TTA. Business income includes, but is not limited to, California business income or loss from federal Form 1040, Schedules C,D,E,F, and California Schedule D-1, Sales of Business Property, (or federal Form 4797, Sales of Business Property, if California Schedule D-1 is not needed), as well as wages. Be sure to include casualty losses, disaster losses, and any business deductions reported on federal Form 1040 Schedule A as 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 TTA.

Apportionment

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

Property Factor

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

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

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

Payroll Factor

Payroll is defined as the total amount paid to the business' 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 TTA

Compensation is considered to be within the TTA if any one of the following tests is met:

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

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 TTA, the employee's compensation is attributed to the TTA if any one of the following items is met:

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

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

Corporations Filing a Combined Report

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

Example: Computation of TTA income assigned to each entity operating within the TTA

Parent Corporation A has two subsidiaries, B and C. Corporations A and B operate within the TTA. The combined reporting group operates within and outside California and apportions its income to California using Schedule R. Assume the combined reporting group's business income apportioned to California was \$1,000,000 and Corporation A and B's share of business income assigned to California is \$228,000 and \$250,000 respectively. Corporation A and B's separate TTA and separate California property and payroll factor amounts are shown.

Business income apportioned to the TTA is determined as follows:

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

Instructions for Worksheet III – Income or Loss Apportionment

Section A – Income Apportionment

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

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

Property Factor

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

Payroll Factor

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

Section B – Income or Loss Apportionment

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

- Worksheet IV, 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 TTA. A taxpayer's TTA business income is its California apportioned business income computed using Schedule R, multiplied by the specific TTA apportionment percentage computed using Worksheet III, 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," since only business income is

apportioned to the TTA. See Part II, Portion of Business Attributable to the Targeted Tax Area, for a complete discussion of business and nonbusiness income.

Business income or loss reported on federal Form 1040 Schedules C, C-EZ, E, F, and other schedules are reported on line 6 through line 9. Line 11 and line 12 report business gains or losses reported on California Schedule D, California Capital Gain or Loss Adjustment, and Schedule D-1 (or federal Form 4797, if California Schedule D-1 is not needed). All business income and losses should be adjusted for any differences between California and federal amounts as shown on the Schedule CA.

Part I – Individual Income and Expense Items

Wages

For taxpayers with wages from a company located within and outside the TTA, determine the TTA wage income by entering the percentage of the time that they worked within the TTA in column (b). The percentage of time should be for the same period for which the wages entered on line 1 were earned. Determine this percentage 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 K-1

The individual partner, member, or shareholder completes Worksheet III, Section B, Part II, Pass-Through Income or Loss, and Schedule Z, Computation of Credit Limitations.

Multiple Pass-Through Entities

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

Example:

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

Part III – Taxpayer's Trade or Business

Business Income or Loss

Use business income or loss from federal Form 1040 Schedules C, C-EZ, E, and F, plus California adjustments from Schedule CA (540 or 540NR) for each trade or business. Also, include business capital gains and losses from Schedule D and business gains and losses from Schedule D-1 as adjusted on Schedule CA (540 or 540NR).

Income Computation Located Entirely Within the TTA

Line 6 – Line 9

If your business operation reported on federal Form 1040 Schedule C, C-EZ, E, F, or other schedule is entirely within the TTA, 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 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 TTA, enter the gain or loss reported in column (a), and enter 1.00 in column (b).

Located Entirely Within California

Line 6 – Line 9

If your business operation reported on federal Form 1040 Schedule C, C-EZ, 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 III, Section A. Enter the percentage from Worksheet III, Section A, line 4, column (c) on Worksheet III, Section B, column (b).

Line 11 and Line 12

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

Located Within and Outside the TTA and California

Line 6 – Line 9

If your business operation reported on federal Form 1040 Schedule C, C-EZ, E, F, or other schedule is within and outside the TTA 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 III, Section A. Enter the percentage from Worksheet III, Section A, line 4, column (c) on Worksheet III, Section B, column (b).

When computing Schedule R, disregard any reference to Forms 100, 100S, 100W, 565, or 568. Also, disregard any reference to Schedules R-3, R-4, or R-5.

Nonresidents that have an apportioning business that operates within the TTA 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 for purposes of the TTA credit computation.

Line 11 and Line 12

If the gain or loss reported on Schedule D or Schedule D-1 as adjusted on Schedule CA (540 or 540NR) was attributed to an asset used in an activity conducted within and outside the TTA and California, get Schedule R and complete Schedule R-1. 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 III, Section A. Enter the percentage from Worksheet III, Section A, line 4, column (c) on Worksheet III, Section B, column (b).

Line 14

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

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

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

The TTA has expired as of December 31, 2012. Generally, no further TTA incentives can be generated after the expiration date. For taxable years beginning on or after January 1, 2013, taxpayers can no longer generate any TTA NOL. However, taxpayers can claim an NOL carryover deduction from prior 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.

For taxable years beginning in 2002 and 2003, California had 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. See instructions for Worksheet IV, on the next page for more information on the suspension of the NOL carryover deduction for taxable years beginning in 2008 through 2011.

The business cannot generate NOLs from activities within the TTA before the first taxable year beginning on or after the date the TTA is officially designated or for the taxable years ending after the designation expires. The Tulare County TTA received final designation on November 1, 1998.

Limitation

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

Election

If you elected and designated the carryover category (general or specific, enterprise zone, LAMBRA, TTA, or Pierce's disease NOL) on the original tax return for the year of a loss, you should file form FTB 3809 for each year in which a TTA NOL deduction is being taken. The election is **irrevocable**.

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

Alternative Minimum Tax

Taxpayers claiming a TTA NOL carryover deduction determine their NOL for alternative minimum tax purposes. Use Schedule P (100, 100W, 540, 540NR, or 541) to compute the NOL for alternative minimum tax purposes.

Worksheet III Income or Loss Apportionment – Targeted Tax Area

Section A Income Apportionment

Use Worksheet III, Section A, if your business has net income from sources within and outside the TTA.

	(a) Total within California	(b) Total within the TTA	(c) Percentage within the TTA column (b) ÷ column (a)
PROPERTY FACTOR			
1 Average yearly value of owned real and tangible personal property used in the business (at original cost). See instructions. Exclude property not connected with the business and the value of construction in progress.			
Inventory			
Buildings			
Machinery and equipment			
Furniture and fixtures			
Delivery equipment			
Land			
Other tangible assets (attach schedule)			
Rented property used in the business. See instructions			
Total property values			
PAYROLL FACTOR			
2 Employees' wages, salaries, commissions, and other compensation related to business income included in the tax return.			
Total payroll			
3 Total percentage – sum of the percentages in column (c)			
4 Average apportionment percentage (1/2 of line 3). Enter here and on form FTB 3809, 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 TTA. 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 TTA, the average apportionment percentage would be computed by dividing line 3 by one instead of by two as normally instructed.

Worksheet III Income or Loss Apportionment-Targeted Tax Area (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 TTA	(c) Apportioned amount (a) x (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 TTA 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 TTA	(c) Apportioned income or loss (a) x (b)
6 Schedule C or C-EZ			
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 TTA	(c) Apportioned gain or loss (a) x (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			

S Corporations

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

Combined Report

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

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

Water's-Edge Taxpayer

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

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

Individuals, exempt trusts, and corporations with current year income and a prior year TTA NOL carryover complete Worksheet IV.

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**, taxpayers with net income after state adjustments (pre-apportioned income) (corporations) or with modified adjusted gross income (individuals) of less than \$300,000, **or** with disaster loss carryovers are not affected by the NOL suspension rules.

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

Individuals use the amount shown on your federal tax return for the same taxable year without regard to the federal NOL deduction (Form 540/540NR, Line 13, plus the federal NOL deduction listed on Schedule CA (540/540NR) column C, line 21c).

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

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

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

Line 1 – See Part II (page 6) for a discussion of business and nonbusiness income.

Form 540 and Form 540NR filers:

Be sure to include casualty losses, disaster losses, and any business deductions reported on federal Form 1040, Schedule A, as itemized deductions.

Exception: If you elected to carry back part or all of your current year disaster loss, under IRC Section 165(i)(1), do not include the amount of the loss that was carried back in the current year business income for the TTA.

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 the MTI amount by your TTA NOL carryover deduction. The TTA 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. If this amount is zero or negative, transfer the amount(s) from line 8 through line 22, column (b) to column (e). Go to line 23.

Line 8 through Line 22 – Enter the amounts on line 8 through line 22 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) TTA NOL carryover
		\$5,000	
\$ 500	\$ 500	4,500	\$ 0

Line 23 – Total the amounts in columns (b), (c), and (e). Enter the totals from column (b) and column (e) on form FTB 3809, Side 1, line 3a and line 3c, accordingly.

Your TTA NOL carryover deduction for 2016 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), line 21e, column B
- Schedule CA (540NR), line 21e, column B

Schedule Z – Computation of Credit Limitations

Credit Limitations

The amount of credit you can claim on your California tax return is limited by the amount of tax attributable to TTA business income. The amount of tax attributable to the TTA business income is computed in this schedule. For corporations and other entities doing business in the targeted tax area, the TTA business income is computed in this schedule using the TTA apportionment factor formula computed on Worksheet III, Section A. For individuals, the TTA business income is computed on Worksheet III, Section B.

Assignment of Credit

For taxable years beginning on or after July 1, 2008, credit earned by members of a combined reporting group may be assigned to an affiliated corporation that is a member of the same combined reporting group. A credit assigned may only be claimed by the affiliated corporation against its tax in taxable years beginning on or after January 1, 2010.

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 TTA credits you may claim on your California tax return is limited to the tax attributable to a specific TTA. For zone credits assigned, the assignee must have a tax liability as a result of income generated in the same zone that the original credit was generated. For example, if the original credit was generated in the Tulare TTA of the assignor, the assignee must have a tax liability on the income attributable to the Tulare TTA in order to use the assigned credit. For more information, get form FTB 3544, or form FTB 3544A or go to ftb.ca.gov and search for **credit assignment**.

Other Limitations

If a taxpayer owns an interest in a disregarded business entity, the amount of the credit 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).

Credits you are otherwise eligible to claim may be limited. Do not apply credits against the minimum franchise tax (corporations and S corporations), annual tax (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 TTA Credits

An S corporation may use its TTA credits to reduce TTA tax at both the corporate and shareholder levels.

An S corporation may use 1/3 of the TTA credits to reduce the tax on the S corporation's TTA business income. In addition, S corporation shareholders may claim their pro-rata share of the entire amount of the TTA credits computed under the Personal Income Tax Law.

Example: In 2016, an S corporation qualified for a \$3,000 TTA hiring credit. The S corporation will be able to use 1/3 of the credit ($\$3,000 \times 1/3 = \$1,000$) to offset the tax on the corporation's TTA income.

The S corporation will also pass-through a \$3,000 credit to its shareholders to offset their individual tax (computed under the Personal Income Tax Law) on TTA income.

S corporations should attach form FTB 3809 to Form 100S, California S Corporation Franchise or Income Tax Return, to claim the tax credits.

Shareholders should attach Schedule(s) K-1 (100S), to their individual tax return.

Carryover

If the amount of hiring credit available this year exceeds your TTA tax, you may carry over any excess credit to future years. The portion of any hiring credit or sales or use tax 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. Apply the carryover to the earliest taxable year(s) possible. In no event can the credit be carried back and applied against a prior year's tax.

For S corporations, the amount of the 1/3 of hiring credit that is in excess of the 1.5% entity-level tax (3.5% for financial S corporations) in the current year may also be carried forward and used in future years to offset the S corporation entity-level business tax. See the instructions for Schedule Z, Part III, for more information.

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 **210** to claim the TTA 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(s).

Instructions for Schedule Z – Computation of Credit Limitations

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

- Partnerships and LLC's treated as partnerships do not complete Schedule Z. The partners and members of these types of entities should compute their TTA income from all sources by completing the Schedule Z to determine the amount of TTA credits that they may claim on their California tax return. For individual partners, report the distributive share of all the business income apportioned to the TTA. For corporate partners, report the distributive share of the TTA 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, losses, and deductions apportioned to the TTA; and
- Separately state any distributive or pro-rata share of business capital gains and losses apportioned to the TTA included in the amount above.

S Corporations

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

Corporations and S Corporations subject to the minimum franchise tax only

Complete only Part IV of Schedule Z.

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

Part I – Computation of Credit Limitations

For filers with NOL carryovers.

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

If you do not have any NOL carryovers:

- Individuals: Go to Worksheet III, Section B. Follow the instructions there. Enter the amount from Worksheet III, 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 below.

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

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

Line 1 – Enter all trade or business income. See form FTB 3809, Part II instructions for the definition of business income.

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

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

Line 6a – Compute the tax as if the TTA 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 TTA credits this year. You should complete Part IV of Schedule Z to compute the amount of credit carryover.

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

This percentage was determined by ABC, Inc. using Worksheet III, Section A, when ABC's 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 TTA.

John and Jackie Anderson have the following items of California income and expense for the 2016 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 TTA income (total amount to be reported on line 3) is computed as follows:

John's TTA salary (\$100,000 x 50%)	\$50,000
Jackie's TTA 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 TTA income (Schedule Z, Part I, line 3)	\$156,000

The standard deduction and personal or dependency exemptions are not included in the computation of TTA 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 TTA income of \$156,000 (as if it represents all of their income).

Line 6b – Corporations and S corporations:

If the amount on line 6b is the minimum franchise tax (\$800), you cannot use your TTA credits this year. You should complete Part IV of Schedule Z to compute the amount of credit carryover.

Part II – Limitations 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 (f) – Enter the amount from line 7. This is the amount of limitation based on the tax on TTA business income.

Line 8A, column (g) – 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

Worksheet IV Computation of NOL Carryover and Carryover Limitations – Targeted Tax Area. See instructions.

1	Enter the amount from Form 100 or Form 100W, line 17; Form 100S, combined amounts of line 14 and line 16; or Form 109, line 1 or line 4. Form 540 and Long Form 540NR filers, enter the total from Worksheet III, 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)	1		
2 a	Form 100, Form 100W, Form 100S, and Form 109 filers: Enter any nonbusiness income included in line 1 as a negative number. Form 540 and Long Form 540NR filers leave blank.	2a		
b	Form 100, Form 100W, Form 100S, and Form 109 filers: Enter any nonbusiness loss included in line 1 as a positive number. Form 540 and Long Form 540NR filers leave blank.	2b		
c	Combine line 2a and line 2b	2c		
3	Form 100 or Form 100W filers: Enter the amount from Form 100 or Form 100W, line 21. Form 100S filers: Enter the total of the amount from Form 100S, line 16 and line 19. Form 540, Long Form 540NR, and Form 109 filers: Enter -0-. Enter this amount as a negative number.	3		
4	Combine line 1, line 2c, and line 3. If zero or less, enter -0- on line 6.	4		
5	Enter the average apportionment percentage from Worksheet III, Section A, line 4 . . .	5		
6	Modified taxable income. Multiply line 4 by line 5. See instructions	6		

(a) Description	(b) Carryover from prior year	(c) Amount deducted this year	(d) Balance available to offset losses	(e) TTA NOL carryover to future years.
7 Modified taxable income from line 6				
8 TTA NOL carryover beginning in 1998				
9 TTA NOL carryover beginning in 1999				
10 TTA NOL carryover beginning in 2000				
11 TTA NOL carryover beginning in 2001				
12 TTA NOL carryover beginning in 2002				
13 TTA NOL carryover beginning in 2003				
14 TTA NOL carryover beginning in 2004				
15 TTA NOL carryover beginning in 2005				
16 TTA NOL carryover beginning in 2006				
17 TTA NOL carryover beginning in 2007				
18 TTA NOL carryover beginning in 2008				
19 TTA NOL carryover beginning in 2009				
20 TTA NOL carryover beginning in 2010				
21 TTA NOL carryover beginning in 2011				
22 TTA NOL carryover beginning in 2012				
23 Total the amounts in columns (b), (c), and (e). See instructions				

line 8A, column (f) or the amount computed on line 8B, column (e). Enter this amount on form FTB 3809, Side 1, line 1a.

Line 8B, column (b) – Enter the amount of the current year credit that was computed on Worksheet IA, Section A, line 4. Individuals that received a Schedule K-1 enter the current year hiring credit from the K-1.

Line 8B, column (c) – Enter the amount of the total prior year credit carryover. This is the amount of credit that was previously computed on Worksheet IA, Section A, in the prior year, minus the amount that was allowed to be taken on the prior year tax return.

Line 8B, column (d) – Enter the amount of credit assigned to affiliated corporations that are members of the same combined reporting group from form FTB 3544, 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 (e) instructions.

Line 8B, column (e) – Add the amount of the current year credit on line 8B, column (b) and the amount of the total prior year carryover on line 8B, column (c), then subtract the amount on line 8B, column (d), if any.

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

Line 8B, column (h) – Subtract the amount on line 8B, column (f) from the amount on line 8B, column (e). Enter the result on line 8B, column (h). 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 TTA business income.

Line 9A, column (f) – Subtract the amount on line 8B, column (f) from the amount on line 8A, column (f). 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 (e) on line 9B, column (h).

Line 9A, column (g) – 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 (f) or the amount computed on line 9B, column (e). Enter this amount on form FTB 3809, Side 1, line 1b.

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

Line 9B, column (d) – Enter the amount of credit assigned to affiliated corporations that are members of the same combined reporting group from form FTB 3544, 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 (e) instructions.

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

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

Line 9B, column (h) – Subtract the amount on line 9B, column (f) from the amount on line 9B, column (e). Enter the result on line 9B, column (h). 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 TTA business income.

Example: Part II

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

Hiring credit — \$500 and a \$300 carryover from a prior year
 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) Credit amount	(c) Total prior year carryover	(d) Total credit assigned from form FTB 3544, col. (g)	(e) Total credit sum of col. (b) plus col. (c), minus col. (d)	(f) Limitation based on TTA business income	(g) Credit used on Sch. P Can never be greater than col. (e) or col. (f)	(h) Total credit carryover col. (e) minus col. (f)
8	Hiring credit	A				7,000	800	
		B	500	300	-0-	800		-0-
9	Sales or use tax credit	A				6,200	6,200	
		B		9,000	-0-	9,000	6,200	2,800

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 TTA business tax limitation (Part I, line 7) after completing this worksheet.

Line 10, column (b) – Enter the amount of the current year credit that was computed on Worksheet IA in column (b) for line 10. Also, enter this amount on Form 100S, Schedule K, line 13d.

Line 10, column (c) – Multiply the amount on line 10, column (b) by 1/3. Enter this amount in column (c). The amount in column (c) is the maximum amount of the current year credit that may be used by the S corporation to offset its 1.5% entity-level tax (3.5% for financial S corporations). Also, include this amount on Form 100S, Schedule C.

Line 10, column (d) – Enter the amount of total prior year credit carryover. This is the credit amount that was previously computed on the prior year Worksheet IA minus the amount that was allowed to be taken on the prior year tax return. Also, include this amount on Form 100S, Schedule C.

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

Line 10 and Line 11, column (e) – Add the amounts of the current year credits in column (c), as applicable, and the total prior year carryovers in column (d).

Line 10 and Line 11, column (f) – Enter the credit amounts that were 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 (f) for line 10 and line 11 on form FTB 3809, Side 1, line 1a and line 1b, as applicable.

Line 10 and Line 11, column (g) – Subtract the amount in column (f) for each line from the amounts in column (e). 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 you are a corporation or S corporation subject to paying only the minimum franchise tax.

Line 12, column (b) – Enter the amount of the current year credit that was computed on Worksheet IA. S corporations may enter only 1/3 of the amount from Worksheet IA on line 12, column (b).

Line 12, column (c) – Enter the amount of the total prior year credit carryover. This is the credit amount that was previously computed on Worksheet IA in the prior year, minus the amount that was allowed to be taken on the prior year tax return. S corporations may enter only 1/3 of the amount from Worksheet IA.

Line 13, column (c) – Enter the amount of total prior year credit carryover from prior year's Schedule Z, Part IV, line 13, column (e).

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

Line 12 and Line 13, column (e) – Add the amounts in column (b) as applicable, and column (c) for line 12 and line 13, then subtract the amounts in column (d), if any, for line 12 and line 13. These are the credit amounts that can be carried over to future years.