California

Forms & Instructions

565

1996

Partnership Tax Booklet

This booklet contains:

State of California
Franchise Tax Board

Table of Contents

1996 Instructions for Form 565, Partnership Return of Income

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1993,** and to the California Revenue and Taxation Code (R&TC).

General Information

A Changes You Should Note

AMTI Exclusion. As a result of legislation enacted in 1996, alternative minimum taxable (AMT) income shall not include income, adjustments and items of tax preference related to any trade or business of a qualified taxpayer who has gross receipts, less returns and allowances, during the taxable year of less than $1,000,000 from **all** trades or businesses.

Disabled Access Credit. This credit is similar to the federal credit, but is limited to $125, based on 50% of qualified expenditures that do not exceed $250. The credit is claimed on form FTB 3548, Disabled Access Credit.

Donated Agricultural Products Transportation Credit. The credit is 50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations. The credit is claimed on form FTB 3547, Donated Agricultural Products Transportation Credit.

Enhanced Oil Recovery Credit. This credit is similar to the federal credit but limited to qualified enhanced oil recovery projects located within California. The credit is claimed on form FTB 3546, Enhanced Oil Recovery Credit.

B Important Information

California Tax Forms on Internet. Do you need a California income tax form or publication? Do you have Internet access? If so, you may download, view and print 1994, 1995 and 1996 California tax forms and publications. Our Internet address is:

http://www.ftb.ca.gov

Federal Conformity. In general, California **did not** conform its law to the changes made to the IRC by the federal Revenue Reconciliation Act of 1993 (Public Law 103-66) or subsequent legislation. California legislation during 1994 and 1996 did adopt a few specific provisions of the 1993 federal changes. All other references in these instructions are to the IRC as it existed on January 1, 1993.

Substitute Schedule K-1 (565). If the partnership does not use an official FTB Schedule K-1 (565) or a software program with an FTB approved Schedule K-1 (565), it must get approval from the FTB to use a substitute form. Beginning with partnership returns filed in 1996, do not file Schedule K-1s (565) on microfiche. Instead, use an official or an FTB approved substitute Schedule K-1 (565).

C Purpose

Use Form 565, Partnership Return of Income, to report income, deductions, gains, losses, etc., from the operation of a partnership. Form 565 is an information return for calendar year 1996 or other fiscal years beginning in 1996.

Annual Tax

An annual tax of $800 applies to:

- Limited partnerships, both foreign and domestic, that do business in California;
- Limited partnerships that have a certificate on file with the California Office of the Secretary of State (SOS);
- Limited liability partnerships (LLPs) that do business in California;
- LLPs registered with the SOS; and
- Real estate mortgage investment conduits (REMICs) that are partnerships and do business in California at any time during the year.

This tax cannot be deducted as an expense by the partnership nor can it be deducted from the partner's distributive share.

A limited partnership is a partnership composed of at least one general partner and one or more limited partners.

Limited Liability Partnerships. California law authorizes the formation of LLPs with activities limited to either the practice of public accountancy or law and related services and recognizes out-of-state LLPs doing business in California.

A limited liability partnership is a partnership, other than a limited partnership, that has a Certificate of Registration on file with the SOS as described in Corporation Code, Section 15002(i)(1).

A REMIC is a special tax vehicle for entities that issue multiple classes of investor interests backed by a fixed pool of mortgages. Get the instructions for federal Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return, for more information. REMICs that are partnerships must use Form 565.

For definitions of a partnership, general partner, limited partner, nonrecourse loans, etc., see the instructions for federal Form 1065, U.S. Partnership Return of Income.

D Who Must File

Every partnership (including a REMIC treated as a partnership) that engages in a trade or business or has income from sources in California must file Form 565. Regardless of where the trade or business of the partnership is conducted, a partnership is considered to be doing business in California if any of its partners (general or limited) or other agents are conducting business in California on behalf of the partnership. In such cases, the partnership is required to file Form 565.

Religious and apostolic organizations that are exempt from income tax under R&TC Section 23701k are not required to file Form 565. However, Form 565 should be prepared and attached to Form 199, California Exempt Organization Annual Information Statement or Return.

Every LLC classified as a partnership for California tax purposes that is:

- Doing business in California;
- Organized in California; or
- Organized in another state but registered with the SOS

must file Form 568.

A qualifying syndicate, pool, joint venture or similar organization may elect under IRC Section 761(a) (which California follows) not to be treated as a partnership for state income tax purposes and will not be required to file Form 565 except for the year of election.

If Form 565 is filed for a qualifying syndicate, pool, joint venture or similar group, a copy of the operating agreement and all amendments must be attached to the return, unless a copy has been previously filed with the Franchise Tax Board (FTB).

Partnerships, except limited partnerships and LLPs, that do not do business in California and that do not receive income from California sources are not required to file Form 565, even if the partnership consists of one or more California residents.

Limited partnerships and LLPs, both domestic and foreign, doing business in California or that have a certificate on file or are registered with the SOS (whether or not doing business in California) must file a return and pay the tax of $800.

For information about organizing and registering an LLP in California, contact:

LIMITED LIABILITY PARTNERSHIP UNIT
OFFICE OF THE SECRETARY OF STATE
PO BOX 944228
SACRAMENTO CA 94244-2280
(916) 653-3795

A resident partner of a nonresident partnership may be required to furnish a copy of federal Form 1065.

E When and Where to File

A partnership must file Form 565 by the 15th day of the 4th month following the close of its taxable year.

Mail Form 565 with payment (limited partnerships, LLPs and REMICs only) to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0601

Make the check or money order payable to the ''Franchise Tax Board.'' Write the partnership's federal employer identification number (FEIN), SOS 10 digit file number and ''1996 Form 565'' on the check or money order.

Mail Form 565 without payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0600

If the partnership cannot file Form 565 by the due date, it is granted an automatic six-month extension without filing a request for extension.

Note: For limited partnerships, LLPs and REMICs, the automatic extension does not extend the time to pay the $800 tax. To avoid a late payment penalty, 100% of the $800 tax liability must be paid by the due date of the return. See form FTB 3538, Payment Voucher for Automatic Extension for Limited Partnerships, LLPs and REMICs, on page 28 to submit the required payment if the partnership is filing the return on extension.

F Penalties and Interest

Failure to File a Timely Return or Provide Information

A penalty is assessed against the partnership if it is required to file a partnership return and it:

- Fails to file the return on time, including extensions; or
- Files a return (including Schedule K-1 (565)) that fails to show all the information required, unless the failure is due to reasonable cause.

The amount of the penalty for each month, or part of a month (for a maximum of 5 months) that the failure continues, is $10 multiplied by the total number of partners in the partnership during any part of the taxable year for which the return is due. Interest will be due and payable on the penalty from the date of the notice of tax due.

For ''small partnerships,'' as defined in IRC Section 6231, the federal exception to the imposition of penalties for failure to file partnership returns is not applicable for California purposes.

Get FTB Notice CR-88-692 for more information.

Failure to Pay Total Tax by Due Date

For limited partnerships, LLPs and REMICs that must pay the $800 tax with Form 565, a penalty for late payment of tax may be assessed. Any limited partnership, LLP or REMIC that fails to pay the $800 tax by the original due date is assessed a penalty of 5% of the unpaid tax, plus 0.5% for each month or part of a month (not to exceed 40 months) the tax remains unpaid. This penalty cannot exceed 25% of the unpaid tax. Interest will be due and payable on the late payment.

Note: A penalty may also be charged for a check returned for insufficient funds.

G Accounting Methods

Compute ordinary income by the accounting method regularly used to maintain the partnership's books and records. This method must clearly reflect income.

Partnerships given permission to change their accounting method for federal purposes should see IRC Section 481 for information relating to the adjustments required by changes in accounting method.

Rounding to Whole-Dollar Amounts

We encourage you to show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next dollar.

H Accounting Periods

Partnership returns normally must be filed for an accounting period that includes 12 full months. A short period return may be filed if the partnership originates or terminates within the taxable year.

See the instructions for federal Form 1065 for information on the required taxable year of a partnership.

I Amended Return

If, after the partnership files its return, it becomes aware of changes it must make to income, deductions, credits, etc., the partnership should file an amended Form 565 and an amended Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., for each partner. Check the amended return box in Item I on Side 1 of Form 565 and on Side 1 of Schedule K-1 (565). Give a corrected Schedule K-1 (565) labeled ''Amended'' to each partner. If the partnership filed a group nonresident partner Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, the partnership should file an amended Form 540NR.

If the partnership's federal return is changed for any reason, the federal change may affect the partnership's California return. This would include changes made as a result of an examination of the partnership's return by the Internal Revenue Service (IRS). The partnership must file an amended return within 6 months of the final federal adjustments. The partnership should attach a copy of the federal Revenue Agent's Report to the return. The partners may also be required to file amended returns based on any changes made by the IRS within 6 months from the date of the final federal adjustments.

J Required Information Returns

Every partnership must file information returns if, in the course of its trade or business it:

- Makes payments of rents, salaries, wages, annuities or other fixed or determinable income during one taxable year totaling $600 or more to one person;
- Pays interest and dividends totaling $10 or more to an individual or one payee; and
- Receives cash payments over $10,000.

Payments of any amount by a broker, dealer or barter exchange agent must also be reported.

Partnerships must report payments made to California residents by providing copies of federal Form 1099. Reports are made for the calendar year and generally are due on February 28th of the year following payment. For nonresidents, see the reporting and withholding requirements on Form 592, Nonresident Withholding Annual Return, Form 592-A, Nonresident Withholding Remittance Statement, and Form 592-B, Nonresident Withholding Tax Statement. Partnerships must also submit federal Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business, within 15 days after the date of the transaction.

Partnerships must use form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report interest due or to be refunded under the look-back method on long-term contracts.

K Special Items

California law generally follows federal law in the areas of:

- IRC Section 702(a) items;
- Elections;
- Distributions of unrealized receivables and inventory items;
- Partners' dealings with the partnership;
- Contributions to the partnership;
- Income of foreign nonresident partners subject to withholding-at-source, Forms 592, 592-A and 592-B;
- Basis and at-risk rules;
- Passive activity limitations;
- Net operating loss deduction by a partner (a partnership is not allowed the deduction for net operating losses for California or federal purposes);
- Publicly traded partnerships;
- Long-term contracts;
- Installment sales;
- Vacation pay;
- Amortization of past service costs;
- Distributions of contributed property by a partnership; and
- Recognition of precontribution gain in certain partnership distributions to contributing partners.

See the instructions for federal Form 1065 for specific information about these provisions.

L Signatures

General Partner

Form 565 is not a valid return unless it is signed by a general partner. If a receiver, trustee in bankruptcy or assignee controls the organization's property or business, that person must sign the return.

Paid Preparer's Information

A person who prepares the return and does not charge the partnership should not sign the partnership return.

Generally, anyone who is paid to prepare the partnership return must sign the return and complete the Paid Preparer's Use Only area of the return.

The paid preparer must:

- Complete the required preparer information;
- Sign in the space provided for the preparer's signature (signature stamps or labels are not acceptable); and
- Give the partnership a copy of the return in addition to the copy to be filed with the FTB.

M Group Returns

Nonresident partners of a partnership doing business or deriving income from sources in California may elect under R&TC Section 18535 to file a group nonresident return. For more information, get FTB Pub. 1073, Guidelines for Filing a Group Nonresident Return for Nonresident Partners of a Partnership or Members of a Limited Liability Company Taxable as a Partnership. See page 40 for information on how to order this publication.

N Investment Partnerships

Income of nonresident partners, including a bank or corporation, derived from ''qualifying investment securities'' of an ''investment partnership'' is considered to be income from sources other than California, except as noted below. Therefore, nonresident partners generally will not be taxed on this income. The partnership should inform its nonresident partners if all or a portion of their distributive share of income is from ''qualifying investment securities'' of an ''investment partnership'' and whether it is sourced to California.

Nonresident partners will be taxed on their distributive shares of income from the ''investment partnership'' if the ''qualifying investment securities'' are interrelated with any other business activity of the nonresident partner or entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and is conducted in California, or if the ''qualifying investment securities'' are acquired with the working capital of a California trade or business. A bank or corporation will be taxed on its distributive share of income if it participates in the management of the investment activities or engages in a unitary business with another taxpayer that participates in managing the investment activities or has other income from California sources. See the instructions for Question W for a definition of investment partnership.

O Dissolution or Cancellation of a Limited Partnership or Limited Liability Partnership

1. Domestic Limited Partnerships

To dissolve a domestic limited partnership, the following steps must be taken:

- File a final return;
- Pay the $800 tax to FTB; and

- File Form LP-3, Certificate of Dissolution, and Form LP-4, Certificate of Cancellation, with the SOS.

For more information contact:

LIMITED PARTNERSHIP DIVISION
OFFICE OF THE SECRETARY OF STATE
PO BOX 944225
SACRAMENTO CA 94244-2250
Telephone: (916) 653-3365

2. Domestic and Foregin Limited Liability Partnerships

To dissolve a limited liability partnership, the following steps must be taken:

- File form FTB 3555L, Limited Liability Company or Limited Liability Partnership Assumption of Tax Liability/Request for Tax Clearance Certificate;
- File a final return;
- Pay the $800 tax to FTB; and
- File Form LLP-4, Limited Liability Partnership Certificate of Notice, with the SOS.

For more information contact:

LIMITED LIABILITY PARTNERSHIP UNIT
OFFICE OF THE SECRETARY OF STATE
PO BOX 944228
SACRAMENTO CA 94244-2280

3. Foreign Limited Partnerships

To dissolve a foreign limited partnership, the following steps must be taken:

- File a final return;
- Pay the $800 tax to FTB; and
- File Form LP-7, Certificate of Cancellation - Foreign Limited Partnership, with the SOS.

For more information, contact the SOS at the address listed in Part 1, Limited Partnership, above.

Specific Instructions

Form 565

Fill In All of the Applicable Lines and Schedules

Enter the total amounts on the appropriate lines of Schedule K (565). Do not enter these items directly on Form 565, Side 1, or on Schedule A or on Schedule D. **Do not** apply the apportionment factor to the items on Schedule K. Enter any items specially allocated to the partners on the appropriate line of the applicable partner's Schedule K-1 (565).

Name, Address, SOS 10 Digit File Number and FEIN

The partnership may use its legal or trade name on all tax returns and other documents filed. Use the label on the booklet that was mailed to the partnership unless it is incorrect. If the information is incorrect on the label or if the partnership does not have a label, print or type the partnership's legal or trade name, address, SOS 10 digit file number and FEIN.

Note: Limited partnerships and LLPs need to enter the SOS 10 digit file number.

Item F – Total Assets at End of Taxable Year

See the instructions for Question N before completing this item.

If you are required to complete this item, enter the total assets at the end of the partnership's taxable year, as determined by the accounting method regularly used in maintaining the partnership's books and records. If there are no assets at the end of the taxable year, enter the total assets as of the beginning of the taxable year.

Question N – If Question 5a through Question 5c on federal Form 1065, Schedule B are all answered "yes," answer "yes" to Question N on Form 565.

If Question N is answered "yes," the partnership is not required to complete Schedules L, M-1 and M-2 or Item F, on Side 1 of Form 565 or Item J on Schedule K-1 (565).

Question S – Ownership control changes each time one person or one entity obtains ownership or control of **cumulatively** more than 50% of the outstanding partnership interest.

Question U (1) through U (3) – If the partnership is a limited partnership, an LLP that is doing business in California or is organized in California or that has registered with the SOS, or is a REMIC, the payment of the $800 tax is required. Enter the tax on line 23. Make the check or money order payable to the "Franchise Tax Board."

Question V – R&TC Sections 18662 and 18666 require taxes to be withheld from certain payments or allocations of income and remitted to the FTB.

1. Foreign Nonresident Partners

As described in IRC Section 1446 and modified by R&TC Section 18666, if a partnership has any income, gain or loss from a trade or business within California, and if any portion of that income, gain or loss is allocable under IRC Section 704 to a foreign partner, the partnership is required to withhold tax on the amount allocable to such foreign partner.

State and federal differences — California generally conforms to IRC Section 1446 and corresponding federal rulings and procedures. The main differences between California and federal laws are:

a. The California withholding rate is 9.3% (8.84% after 1/1/97) for corporations and 9.3% for individuals, partnerships and fiduciaries.

b. Income attributable to the disposition of California real property is subject to withholding under R&TC Section 18662.

2. Domestic Nonresident Partners

R&TC Section 18662 requires the withholding of funds for income or franchise taxes by a partnership when it makes a distribution of income to a domestic nonresident partner. This includes prior year income that should have been, but was not previously reported as income from California sources on the partner's California income tax return. However, withholding is not required if distributions of income from California sources to the partner are $1,500 or less during the calendar year or if the payor is otherwise directed to withhold by FTB. Domestic nonresident partners include individuals that are nonresidents of California and corporations that are not qualified to do business in California or do not have a permanent place of business in California. Domestic nonresident partners also include nonresident estates and trusts, LLCs and partnerships who do not have a permanent place of business in California. Foreign partners covered under R&TC Section 18666 are not domestic nonresident partners.

Partnerships with income from within and outside of California must make a reasonable estimate of the ratio, to be applied to the distributions, that approximates the ratio of California source income to total income. The ratio for the prior year will generally be accepted as reasonable. Partnerships are required to withhold at a rate of 7% of distributions (including property) of income from California sources made to domestic nonresident partners.

For more information, get California Schedule R, Apportionment and Allocation of Income, and refer to General Instruction C, Partnerships and Limited Liability Companies.

The FTB has administrative authority to allow reduced withholding rates, including waivers, when requested in writing. These authorizations may be one-time, annual or for a longer period. Waivers or reduced withholding rates will normally be approved when distributions are made by publicly-traded partnerships and on distributions to brokerage firms, tax-exempt organizations and tiered partnerships.

No withholding is required if the distribution is a return of capital or does not represent taxable income for the current or prior years. Although a waiver is not required in this situation, if upon audit the FTB determines that withholding was required on a distribution, the partnership may be liable for the withholding and penalties.

Send waiver requests and inquiries to:

WITHHOLD-AT-SOURCE UNIT
FRANCHISE TAX BOARD
PO BOX 651
SACRAMENTO CA 95812-0651
Telephone: (916) 845-4900

The withholding should be reported on and remitted with Forms 592, 592-A and 592-B.

The taxable income of nonresident partners is the distributive share, not the distributed amount. For more information, get FTB Pub. 1017, Nonresident Withholding – Partnership Guidelines.

Question W – Investment Partnership.
An ‘‘investment partnership’’ is a partnership that meets the following two criteria:

1. No less than 90% of the partnership's assets consist of:
   - Qualifying investment securities;
   - Deposits at banks or other financial institutions; and/or
   - Office equipment and office space reasonably necessary to carry on the activities of an investment partnership.
2. No less than 90% of the partnership's gross income is from interest, dividends and gains from the sale or exchange of qualifying investment securities defined in R&TC Sections 17955 and 23040.1.

‘‘Qualifying investment securities’’ include:

- Common and preferred stock, as well as debt securities convertible into common and preferred stock;
- Bonds, debentures and other debt securities;
- Foreign and domestic currency deposits or eqivalents and securities convertible into foreign securities;
- Mortgage or asset-backed securities secured by governmental agencies;
- Repurchase agreements and loan participations;
- Foreign currency exchange contracts and forward and futures contracts on foreign currencies;
- Stock and bond index securities and futures contracts, and other similar securities;
- Regulated futures contracts; and
- Options to purchase or sell any of the preceding qualified investment securities, except regulated futures contracts.

‘‘Qualifying investment securities’’ do not include an interest in a partnership, unless the partnership qualifies as an ‘‘investment partnership.’’

See R&TC Sections 17955 and 23040.1 and General Information N, Investment Partnerships.

Specific Line Instructions

Income

Line 1a through Line 8 – California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065, line 1a through line 8.

Note: Be sure to use worldwide amounts determined under California law when completing these lines.

As with the federal requirements, include only trade or business activity income on line 1a through line 8. However, the business income of the partnership is computed using the rules set forth in R&TC Section 25120. Therefore, certain income that may be portfolio income for federal purposes may be business income for California sourcing purposes. Do not include rental activity income or portfolio income on these lines. Rental activity income and portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565). Rental real estate activities are also reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation.

Line 5 – Net Farm Profit (Loss)
Enter the partnership's net profit (loss) from federal Schedule F (Form 1040), Profit or Loss From Farming. Attach federal Schedule F (Form 1040) to Form 565. If the amount includable for California purposes is different from the amount on federal Schedule F (Form 1040), enter the California amount and attach an explanation of the difference.

Line 6 – Net Gain (Loss) from Schedule D-1
Include only ordinary gains or losses from the sale, exchange or involuntary conversion of assets used in a trade or business activity. Ordinary gains or losses from the sale, exchange or involuntary conversion of rental activity assets must be reported separately on Schedule K (565) and Schedule K-1 (565), generally as part of the net income (loss) from the rental activity.

A partnership that is a partner in another partnership must include on Schedule D-1, Sales of Business Property, its share of ordinary gains (losses) from sales, exchanges or involuntary conversions (other than casualties or thefts) of the other partnership's trade or business assets.

Deductions

Line 9 through Line 21 – California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065, line 9 through line 21. **Note:** Be sure to use worldwide amounts determined under California law when completing these lines.

As with the federal requirements, include only trade or business activity deductions on line 9 through line 20. Do not include any rental activity expenses or deductions that are allocable to portfolio income on these lines. Rental activity deductions and deductions allocable to portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565).

Federal reporting requirements for organization and syndication expenses and uniform capitalization rules apply for California.

Line 16a – Depreciation and Amortization
Enter on line 16a the total depreciation and amortization claimed on assets used in a trade or business activity. Complete and attach form FTB 3885P, Depreciation and Amortization-Partnerships, (included in this booklet on page 25 and page 29), to figure depreciation and amortization. Transfer the total from form FTB 3885P, line 6 to Form 565, Side 1, line 16a, or federal Form 8825, Rental Estate Income and Expenses of a Partnership or an S corporation, as appropriate (use California amounts). See the instructions for form FTB 3885P on page 26 and page 27 for more information.

Do not include any expense deduction for recovery property (IRC Section 179/R&TC Sections 17252.5, 17265 and 17266) on this line. The amount of this expense is not deducted by the partnership. Instead, it is passed through separately to the partners and is reported on line 9 of Schedule K (565) and Schedule K-1 (565).

Line 23 – Tax
Enter on line 23 the $800 tax required for limited partnerships doing business in California, registered with SOS or organized in California, LLPs and REMICs. Make the check or money order payable to the "Franchise Tax Board."

Specific Instructions

Schedule A — Cost of Goods Sold

Use Schedule A on Side 2 of Form 565 to report the cost of goods sold for the taxable year.

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065, Schedule A.

Schedule L — Balance Sheets

California's reporting requirements are the same as the federal reporting requirements. The amounts reported on the balance sheet should agree with the books and records of the partnership and should include all amounts whether or not subject to taxation. Attach a statement explaining any differences. Follow the instructions for federal Form 1065, Schedule L.

Note: Domestic partnerships with 10 or fewer partners may not have to complete Schedule L. See the instructions for Question N on page 6 for the specific requirements to qualify for this exception.

Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, Schedule M-2, Analysis of Partners' Capital Accounts and Schedule K-1 (565), Item J — Analysis of Partners' Capital Account

Note: Domestic partnerships with 10 or fewer partners may not have to complete Schedule M-1 and Schedule M-2 or Item J (Schedule K-1 (565)). See the instructions for Question N on page 6 for the specific requirements to qualify for this exception.

If the partnership is required to complete Schedule M-2, the amounts shown should agree with the partnership's books and records and the balance sheet amounts. Attach a statement explaining any differences.

Note: Be sure to use worldwide amounts determined under California law when filling out Schedule M-1.

Also, the amounts on Schedule M-2 should equal the total of the amounts reported in Item J, column (c), of all the partners' Schedule K-1 (565).

Schedule K (565) and Schedule K-1 (565) — Partners' Shares of Income, Deductions, Credits, Etc.

Purpose of Schedules
Schedule K (565) is a summary schedule of all the partners' shares of the partnership's income, deductions, credits, etc. Schedule K-1 (565) shows each partner's separate share. One copy of each Schedule K-1 (565) must be attached to Form 565 when it is filed with the FTB. One copy must be kept with a copy of the partnership return as a part of the partnership's records. One copy must be given to each partner.

Note: Be sure to give each partner a copy of either the Partner's Instructions for Schedule K-1 (565) or specific instructions for each item reported on the partner's Schedule K-1 (565).

If a husband and wife each had an interest in the partnership, you must prepare a separate Schedule K-1 (565) for each of them. If a husband and wife held an interest together, prepare one Schedule K-1 (565) if the two of them are considered to be one partner.

On each Schedule K-1 (565), enter the name, address and state or federal identifying number of the partner and partnership and the partner's distributive share of each item.

For an individual partner, you must enter the partner's social security number. For all other partners, you must enter their federal employer identification number. However, if a partner is an individual retirement arrangement (IRA), enter the identifying number of the custodian of the IRA. Do not enter the social security number of the person for whom the IRA is maintained.

Substitute Forms
If the partnership does not use an official FTB Schedule K-1 (565) or a software program with an FTB-approved Schedule K-1 (565), it **must** get approval from the FTB to use a substitute Schedule K-1 (565). Get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable and Reproduced Tax Forms, for more information.

Filing Schedule K-1 (565) by Diskette or Magnetic Media

The partnership may file Schedule K-1 (565) by diskette or magnetic media. Get FTB Pub. 1062, Guide for K-1 (565) Filing by Diskette or Magnetic Media, for procedures, formatting specifications and record layouts.

Filing Schedule K-1 (565) Electronically

Starting in 1997, partnerships will be able to file Schedule K-1 (565) by electronic data interchange (EDI). Get FTB Pub. 1062A, Guide for K-1 (565) Filing by Electronic Data Interchange (EDI), for more information.

Filing Schedule K-1 (565) on Microfiche

For returns filed in 1996, **do not** file Schedule K-1 (565) on microfiche.

Penalty for Failure to File Appropriate Schedule K-1 (565)

Beginning in 1997, partnerships will be subject to penalties for failure to appropriately file Schedule K-1 (565). The penalty may be imposed when there is clear evidence of deliberate noncompliance with FTB filing requirements.

Compliance with Partnership Filing Requirements

To help ensure the accurate and timely processing of your Form 565, Partnership Return of Income, please verify the following.

- A Schedule K-1 (565) has been attached for each partner identified on Form 565, Side 1, Question J.
- The attached Schedule K-1 (565) contains the partner's correct name, address and identifying number.
- Questions A through I are completed on Side 1 of Schedule K-1 (565).
- The appropriate entity type box (Schedule K-1 (565), Question C) is checked for each partner.
- All attached Schedule K-1s reconcile to the Form 565, Schedule K.
- The partner's percentage (Schedule K-1 (565), Question E) includes decimals (i.e., 33.5432). Do not print fractions.
- Substitute computer generated Schedule K-1 forms **must** be approved by the FTB.

Note: If you use a computer software product, please read the company's user manual to make sure you have the necessary hardware and printer fonts to produce FTB-approved forms. To ease processing, all printing must be courier, standard OCR-A font or standard print font with a minimum 10 pitch (pica spacing).

Schedule K (565) Only

In column (b) on Schedule K (565), enter the worldwide income computed under California law. For partners to comply with the requirements of IRC Section 469, trade or business activity income (loss), rental activity income (loss) and portfolio income must be considered separately by the partners. Rental activity income (loss) and portfolio income are not reported on Side 1 of Form 565 so that these amounts are not combined with trade or business activity income (loss). Schedule K (565) is used to report the totals of these (and other) amounts.

Schedule K-1 (565)

Regardless of the classification of income for federal purposes, the partnership's income from California sources is determined in accordance with California law. Under Title 18, Cal. Code Reg. Section 17951-1 through Section 17951-4, if a partner has an interest in a partnership and the partnership conducts a trade or business wholly within California, the income from that trade or business is California source income. If a partner has an interest in a partnership engaged in a single trade or business conducted within and outside California, the business income of that trade or business is required to be apportioned using the Uniform Division of Income for Tax Purposes Act, R&TC Sections 25120 through 25139. Special rules apply if the partnership has income that is not attributable to the trade or business of the partnership (nonbusiness income).

Generally, income, including rents, royalties, gains or losses, which is attributable to real or tangible property located in California is California source income (see Title 18, Cal. Code Reg. Section 17951-3 and R&TC Sections 25124 and 25125). This income information is entered in Table 1, Part A and on the appropriate line of Schedule K-1 (565), column (e). Income from intangible property is determined at the partner level. This income will often be sourced to the residence (for corporations, commercial domicile) of the partner. However, special sourcing rules apply to income from intangibles in some cases. (For further information, see Partner's Instruction for Schedule K-1 (565)). Because the determination of the source of intangibles must be made at the partner level, intangible income which is not from a trade or business of the partnership is not entered on Schedule K-1 (565), column (e), and is entered only in Table 1, Part B.

In column (b) on Schedule K-1 (565), enter the amounts from federal Schedule K-1 (1065). In column (c), enter the adjustments resulting from differences between California and federal law for each specific line item. In column (d), enter the California amount, which is the result of combining column (b) and column (c).

Column (e) is used to report California source income and credits. Include the following items in column (e):

1. Gross income less allowable deductions from separate businesses, trades or professions conducted wholly within the state (see 18 Cal. Code Reg. Section 17951-4(a)).
2. The portion of the partnership's business income from a business, trade or profession conducted within and outside California that is apportioned to California (Title 18, Cal. Code Reg. Section 17951-4(c) and R&TC Sections 25128 through 25137). In most cases, business income is apportioned using a 4 factor formula consisting of property, payroll and a double weighted sales factor. If more than 50% of the business receipts of the partnership are from agricultural, extractive, savings and loan, or bank and financial activities, the partnership's business income will be apportioned using a 3 factor formula of payroll, property and a single weighted sales factor. Apportioning partnerships should get and complete Schedule R, Apportionment and Allocation of Income, and attach it to Form 565.
3. Tangible and intangible income of the partnership not attributable to the business, trade or profession of the partnership nonbusiness income. Enter the partner's share of income from real and tangible property located in California in column (e) and in Table 1, Part A. Enter the partner's share of income from intangible property in Table 1, Part B. Because the source of this income must be made at the partner level, do not enter an amount for such intangibles in column (e). Intangible income attributable to the business, trade or profession of the partnership must be included in column (e). For further informa-

tion, see Partner's Instruction for Schedule K-1 (565).

4. California tax credits.

Partners and Partnerships in a Single Unitary Business

Special rules apply if the partner and partnership are engaged in a single unitary business. In that case, a unitary partner will not use the income information shown in column (e). Instead, the partner's distributive share of business income is combined with the partner's own business income, and the combined business income is apportioned using an apportionment formula that consists of an aggregate of the partner's share of the apportionment factors from the partnership and its own apportionment factors (see Title 18, Cal. Code Reg. Section 25137(f)). The determination of whether a 3 or 4 factor apportionment formula applies to the combined income will be made at the partner level. The partner's distributive share of business income and property, payroll and sales factors are entered in Table 2. If all of the partners are unitary with the partnership, the partnership need not complete column (e) or attach a schedule R. For further information, see Partner's Instruction for Schedule K-1 (565).

Special Reporting Requirements for Passive Activities

If items of income (loss), deduction or credit from more than one activity are reported on Schedule K-1 (565), the partnership must attach a statement to Schedule K-1 (565) for each activity that is a passive activity to the partner. Rental activities are passive activities to all partners; trade or business activities are passive activities to limited partners and to general partners who do not materially participate in the activity.

The attachment must include all the information explained in the instructions for federal Schedule K-1 (1065).

Questions A and B (Schedule K-1 (565))

See the federal instructions for Questions A and F on federal Schedule K-1 (1065).

Question C (Schedule K-1 (565))

Check the appropriate box to indicate the type of entity of the partner. If the partner is an exempt organization, select the type of entity under which it organized.

Question E (Schedule K-1 (565))

Percentages must be 5 to 7 characters in length and have a decimal point before the 4 final characters. For example, 50% is represented as 50.0000, 5% as 5.0000, 100% as 100.0000.

Question H and I (Schedule K-1 (565))

Check the appropriate boxes at Questions H and I relating to the partner's California residency status.

Specific Line Instructions

The California Schedule K (565) generally follows the federal Schedule K (1065). Where California and federal laws are the same, the instructions for California Schedule K (565) refer to the instructions for federal Schedule K (1065).

Income

Line 1 through Line 7 – See the federal instructions for Schedule K (1065) and Schedule K-1 (1065), Income (Loss), line 1 through line 7.

Note: Schedule K must include all income and losses from the partnership activities as determined under California laws and regulations. Any differences reported between the federal and California amounts should be related to differences in the tax laws. Do not apply the apportionment formula to the income or losses on Schedule K.

Line 6 – Enter on Schedule K, line 6, the amount shown on Schedule D-1, Sales of Business Property, line 7. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report them on line 7.

If the partnership has more than one activity and the amount on line 6 is a passive activity amount to the partner, attach a statement to Schedule K-1 (565) that identifies to which activity the IRC Section 1231 gain (loss) relates.

Deductions

Line 8a – Charitable Contributions

Enter the total amount of charitable contributions made by the partnership during its taxable year on Schedule K (565) and each partner's distributive share on Schedule K-1 (565). Attach an itemized list to both schedules that show the amount subject to the 50%, 30% and 20% limitations.

Partners are allowed a deduction for contributions to qualified organizations as provided in IRC Section 170.

Line 9 through Line 11 – See the federal instructions for Schedule K (1065) and Schedule K-1 (1065), Deductions, line 9 through line 11.

Section 179 expense deductions are subject to different rules for California. See instructions for form FTB 3885P, Depreciation and Amortization.

Investment Interest

Line 12a through Line 12b(2) – These lines must be completed whether or not a partner is subject to the investment interest rules.

Line 12a – Interest Expense on Investment Debts

Enter on this line interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on line 12a of Schedule K (565) and Schedule K-1 (565) (rather than line 10 of Schedule K (565) and Schedule K-1 (565)).

Property held for investment includes a partner's interest in a trade or business activity that is not a passive activity to the partnership and in which the partner does not materially participate. An example would be a partner's working interest in an oil and gas property (i.e., the partner's interest is not limited) if the partner does not materially participate in the oil and gas activity. Investment interest does not include interest expense allocable to a passive activity.

For more information, get form FTB 3526, Investment Interest Expense Deduction.

Line 12b(1) and Line 12b(2) – Investment Interest Income and Expenses

Enter on line 12b(1) only the investment income included on line 4a through line 4e of Schedule K (565) and Schedule K-1 (565). Enter on line 12b(2) only investment expense included on line 10 of Schedule K (565) and Schedule K-1 (565).

If there are items of investment income or expense included in the amounts that are required to be passed through separately to the partner on Schedule K-1 (565) (items other than the amounts included on line 4 and line 10 of Schedule K-1 (565)), give each partner a schedule identifying these amounts.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment and other amounts that are gross portfolio income. Generally, investment income and investment expense do not include any income or expense from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. Get the instructions for form FTB 3526 for more information on investment income and expenses.

Credits

Line 13a(1) – Withholding on Partnership Allocated to All Partners

If taxes were withheld from payments to the partnership by another entity, this withholding is allocated to all partners according to their partnership interests.

Line 13a(2) – Partnership Withholding on Nonresident Partners (Schedule K-1 (565) only)

If taxes were withheld-at-source on domestic or foreign nonresident partners, the amount of this withholding is entered on the partner's Schedule K-1 (565), line 13a(2). This is not a distributable item.

Line 13a(3) – Total Withholding (Schedule K-1 (565) only)

The amounts on a partner's Schedule K-1 (565), line 13a(1) and line 13a(2) are added together to get the total amount of withholding credit for that partner for the partnership year. If taxes were withheld by the partnership or if there is a pass-through withholding credit from another entity, the partnership must provide each affected partner a completed Form 592-B, Nonresident Withholding Tax Statement. Partners must attach Form 592-B to the front of their California income or franchise tax return to claim amounts withheld. Schedule K-1 (565) may **not** be used to claim this withholding credit.

Line 13b through Line 13d –

These lines relate to rental activities. Use line 14 to report credits related to trade or business activities.

Note: California line numbers are different from federal line numbers.

Line 13b – Low-Income Housing Credit

IRC Section 42 provides a credit that may be claimed by owners of residential rental projects providing low-income housing. Generally, the credit is effective for buildings placed in service after 1986.

Get form FTB 3521, Low Income Housing Credit for more information.

Line 13c – Credits Related to Rental Real Estate Activities other than Line 13b

Report any information that the partners need to figure credits related to a rental real estate activity, other than the low-income housing credit. Attach to each partner's Schedule K-1 (565) a schedule showing the amount to be reported and the applicable form on which the amount should be reported.

Line 13d – Credits Related to Other Rental Activities

Use this line to report information that the partners need to figure credits related to a rental activity. Attach to each partner's Schedule K-1 (565) a schedule showing the amount to be reported and the applicable form on which the amount should be reported.

Line 14 – Other Credits

Enter on an attached schedule each partner's allocable share of any credit or credit information that is related to a trade or business activity.

Examples of credits that can be reported on line 14 are:

- Enterprise zone hiring and sales or use tax credit — get form FTB 3805Z;
- Orphan drug credit carryover — get form FTB 3540;
- Employer child care program/contribution credit — get form FTB 3501;
- Program area hiring and sales or use tax credit — get form FTB 3805Z;
- Los Angeles revitalization zone (LARZ) hiring and sales or use tax credit — get form FTB 3806;
- Research credit — get form FTB 3523;
- Residential rental and farm sales credit carryover — get form FTB 3540;
- Commercial solar electric system credit carryover — get form FTB 3540;
- Prison inmate labor credit — get form FTB 3507;
- Low-emission vehicles credit carryover — get form FTB 3540;
- Recycling equipment credit carryover — get form FTB 3540;
- Local agency military base recovery area (LAMBRA) credit — get form FTB 3807;
- Manufacturers' investment credit — get form FTB 3535;
- Salmon and steelhead trout habitat restoration credit — contact the California Department of Fish and Game for more information. Use credit code 200;
- Enhanced oil recovery credit — get form FTB 3546;
- Donated agricultural products transportation credit — get form FTB 3547; and
- Disabled access credit — get form FTB 3548.

You may also include on line 14 the distributive share of net income taxes paid to other states by the partnership. Subject to limitations of R&TC Sections 18001 and 18006, partners may claim a credit against their individual income tax for net income taxes paid by the partnership to another state. You must support the amount of tax paid with a schedule of the credits and the states paid and evidence of payment of the tax. Get Schedule S, Other State Tax Credit, for more information.

Adjustments and Tax Preference Items

Line 15a through Line 15e – Enter each partner's distributive share of income and deductions that are preference items. Get Schedule P (540), Alternative Minimum Tax and Credit Limitations — Residents, Schedule P (540NR), Alternative Minimum Tax and Credit Limitations — Nonresidents or Part-Year Residents, Schedule P (541), Alternative Minimum Tax and Credit Limitations — Fiduciaries, or Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations, to determine amounts and for other information.

For additional information, see federal instructions for Schedule K, Adjustments and Tax Preference Items, line 16a through line 16e and R&TC Section 17062 for differences in alternative minimum tax between federal and California law.

Other

Line 16 through Line 21 – See the federal instructions for Schedule K-1 (1065), ''Other,'' line 18 through line 24.

Line 22 – (Schedule K-1 (565) only)
The partnership may need to report supplemental information that is not specifically requested on the Schedule K-1 (565) separately to each partner.

Partners may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the partnership. As a result of legislation enacted in 1996, alternative minimum taxable income shall not include income, positive and negative adjustments and preference items attributed to any trade or business of a qualified taxpayer who has gross receipts, less returns and allowances, during the taxable year of less than $1,000,000 from all trades or businesses in which the taxpayer is an owner or has an ownership interest. The partnership can provide the partner's proportionate interest of aggregate gross receipts on Schedule K-1 (565), line 22. For purposes of R&TC Section 17062(b)(4), ''gross receipts'' means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income (within the meaning of subdivision (d) of R&TC Section 25120). Proportionate interest includes an interest in a pass-through entity. See R&TC Section 17062 for more information.

Analysis — (Schedule K (565) only)

Line 23a through Line 23b(2) – For the instructions for line 23a through line 23b(2) of Schedule K (565), see the federal instructions for Schedule K (1065), line 25a and line 25b.

Tables — (Schedule K-1 (565) only)

Table 1 – For each of the items described in Table 1, Part A and Part B, enter the net of income (loss) for each of the income items listed. If the income (loss) for an income item is a mixture of income (loss) in different subclasses (for example, short and long term capital gain), attach a supplemental schedule providing the breakdown of income in each subclass.

Part A. Enter the partner's share of nonbusiness income from real and tangible property that is located in California. Because this income has a California source, this income should also be included on the appropriate line in column (e).

Part B. Enter the partner's share of nonbusiness income from intangibles. Because the source of this income must be determined at the partner level, do not enter income in this category in column (e).

Table 2 – Part A. If the partner and partnership are engaged in a single unitary business, the partner's distributive share of the partnership's business income is entered in Part A. The partner will then add that income to its own business income and apportion the combined business income.

Part B. Enter the partner's distributive share of the partnership's payroll, property and sales factors in Part B.

TAXABLE YEAR

CALIFORNIA FORM

1996 Partnership Return of Income 565

For taxable or income year beginning MONTH ___ DAY ___ YEAR 1996, and ending MONTH ___ DAY ___ YEAR ___.

A Principal business activity name *(same as federal)*	Partnership name (place label within block or type or print) Check box if name changed ☐	D FEIN ●
	DBA	E Date business started ●
B Principal product or service *(same as federal)*	Number and street (or PO Box number if mail is not delivered to street address)	F Enter total assets at end of year. See instructions. ● $
C Principal business code *(same as federal)* ●	City or town, state and ZIP code	I Check applicable box (1) ☐ Initial return ● (2) ☐ Final return (3) ☐ Amended return
G Check accounting method: ● (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (attach explanation)	H Secretary of State file number (10 digit) ●	

		Yes	No
J	Enter the number of Schedule K-1s. Be sure to attach one for each person who was a partner at any time during the taxable year . ●		
K	Is any member of the partnership related by blood or marriage to any other member? . . . ●		
L	Is any member of the partnership a trust for the benefit of any person related by blood or marriage to any other member? . ●		
M	Are any partners in this partnership also partnerships or LLCs?		
N	Does the partnership meet all the requirements shown in the instructions for Question N? . . .		
O	Is this partnership a partner in another partnership or LLC? If yes, attach a statement with the names and FEINs of each entity.		
P	Was there a distribution of property or a transfer (e.g., by sale or death) of a partnership interest during the taxable year? If "yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754 ●		
Q	Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)? . . .		
R	Is this partnership under audit by the IRS or has it been audited in a prior year? . . . ●		
S	Did ownership control of this partnership or any of its subsidiaries or affiliates change this taxable year? (Do not leave blank) . . . . ●		
T	Is this partnership a limited partnership? . . . ●		
U	**(1)** Is this partnership a limited partnership that does business in California, is registered with the SOS or is organized in California? . . . ●		
	(2) Is this partnership a REMIC? . . . ●		
	(3) Is this partnership an LLP? . . . ●		
	If yes on any of the above, see instructions and line 23 below.		
V	**(1)** Does the partnership have any foreign partners? . . . ●		
	(2) Does the partnership have any nonresident partners? . ●		
	(3) Were Form 592, Form 592-A and Form 592-B filed for these partners? . . . ●		
W	Is this an investment partnership? (See instructions.) . . . ●		

X Enter the ordinary income (loss) shown on federal Form 1065 for the same calendar or fiscal year (taxable year). Explain in a separate schedule any differences between federal ordinary income (loss) and the amount shown on line 22 . . . ● $______

Y Is partnership ● ☐ apportioning or ☐ not apportioning income to California?

Caution: Include **only** trade or business income and expenses on line 1a through line 21 below. See the instructions for more information.

Income	1 **a** Gross receipts or sales $______ **1b** Less returns and allowances $______ . . . . Balance	1c		
	2 Cost of goods sold (Schedule A, line 8) . . .	2		
	3 Gross profit. Subtract line 2 from line 1c. . . . ●	3		
	4 Ordinary income (loss) from other partnerships and fiduciaries. Attach schedule. . . . ●	4		
	5 Net farm profit (loss). Attach federal Schedule F (Form 1040) . . . ●	5		
	6 Net gain (loss) from Schedule D-1, Part II, line 18 . . . ●	6		
	7 Other income (loss). Attach schedule . . . ●	7		
	8 **TOTAL** income (loss). Combine line 3 through line 7. . . . ●	8		
Deductions	9 Salaries and wages (other than to partners). . . .	9		
	10 Guaranteed payments to partners . . . ●	10		
	11 Repairs . . .	11		
	12 Bad debts. . . . ●	12		
	13 Rent . . .	13		
	14 Taxes . . .	14		
	15 Deductible interest expense not claimed elsewhere on return . . .	15		
Attach check or money order here.	16 **a** Depreciation and amortization. Attach form FTB 3885P $______ **b** Less depreciation reported on Schedule A and elsewhere on return $______ . . . Balance	16c		
	17 Depletion. Do not deduct oil and gas depletion . . .	17		
	18 Retirement plans, etc. . . .	18		
	19 Employee benefit programs . . .	19		
	20 Other deductions. Attach schedule . . . ●	20		
	21 **TOTAL** deductions. Add line 9 through line 20 . . . ●	21		
	22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8 . . . ●	22		
	23 **Tax — $800.00 (limited partnerships, LLPs and REMICs only).** See instructions. Make check payable to FTB. . . . ●	23		

Schedule A Cost of Goods Sold

1	Inventory at beginning of year	1		
2	Purchases less cost of items withdrawn for personal use	2		
3	Cost of labor	3		
4	Additional IRC Section 263A costs. Attach schedule	4		
5	Other costs. Attach schedule	5		
6	Total. Add line 1 through line 5	6		
7	Inventory at end of year	7		
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8		

9 a Check all methods used for valuing closing inventory:
● **(1)** ☐ Cost **(2)** ☐ Lower of cost or market as described in Treas. Reg. Section 1.471-4 **(3)** ☐ Writedown of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c) **(4)** ☐ Other. Specify method used and attach explanation ______

b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970 . . . ☐

c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "yes," attach explanation ☐ Yes ☐ No

Schedule L Balance Sheets. See the instructions for Question N before completing Schedules L, M-1 and M-2.

Assets	Beginning of taxable year (a)	(b)	End of taxable year (c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	( )		( )	●
10 a Depletable assets				
b Less accumulated depletion	( )		( )	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	( )		( )	
13 Other assets. Attach schedule				●
14 Total assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule				●
21 Partners' capital accounts				●
22 Total liabilities and capital				

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of general partner ▶ | Date | Telephone ( )

Paid Preparer's Use Only

Preparer's signature ▶ | Date | Check if self-employed ▶ ☐ | Preparer's SSN/FEIN

Firm's name (or yours, if self-employed) and address ▶ | FEIN ▶ | Telephone ▶ ( )

Schedule K Partners' Shares of Income, Deductions, Credits, Etc.

		(a) Distributive share items		(b) Total amount using California law
Income (Loss)	1	Ordinary income (loss) from trade or business activities (Side 1, line 22)	1	
	2	Net income (loss) from rental real estate activities. Attach federal Form 8825	2	
	3 a	Gross income from other rental activities ... 3a		
	b	Less expenses. Attach schedule ... 3b		
	c	Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c	
	4	Portfolio income (loss). See instructions:		
	a	Interest income ●	4a	
	b	Dividend income ●	4b	
	c	Royalty income ●	4c	
	d	Net capital gain (loss) (Schedule D (565))	4d	
	e	Other portfolio income (loss). Attach schedule ●	4e	
	5	Guaranteed payments to partners ●	5	
	6	Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1 ●	6	
	7	Other income (loss). Attach schedule	7	
Deductions	8 a	Charitable contributions. See instructions. Attach schedule	8a	
	b	Political contributions	8b	
	9	Expense deduction for recovery property (R&TC Sections 17252.5, 17265, 17266 and 17268 and IRC Section 179). Attach schedule or worksheet for 179 deductions	9	
	10	Deductions related to portfolio income (do not include investment interest expense)	10	
	11	Other deductions. Attach schedule	11	
Investment Interest	12 a	Interest expense on investment debts	12a	
	b	**(1)** Investment income included on line 4a through line 4e above	12b(1)	
		(2) Investment expenses included on line 10 above	12b(2)	
Credits	13 a	**(1)** Withholding on partnership allocated to all partners	13a(1)	
	b	Low-income housing credit	13b	
	c	Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule	13c	
	d	Credit(s) related to other rental activities. See instructions. Attach schedule.	13d	
	14	Other credits. See instructions. Attach schedule ●	14	
Adjustments and Tax Preference Items	15 a	Depreciation adjustment on property placed in service after 1986	15a	
	b	Adjusted gain or loss	15b	
	c	Depletion (other than oil and gas)	15c	
	d	**(1)** Gross income from oil, gas and geothermal properties	15d(1)	
		(2) Deductions allocable to oil, gas and geothermal properties	15d(2)	
	e	Other adjustments and tax preference items. Attach schedule	15e	
Other	16 a	Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a	
	b	Type of expenditures ________	16b	
	17	Tax-exempt interest income	17	
	18	Other tax-exempt income	18	
	19	Nondeductible expenses	19	
	20	Distributions of money (cash and marketable securities)	20	
	21	Distribution of property other than money	21	
	22	Other items and amounts reported separately to partners. See instructions. Attach schedule	22	
Analysis	23 a	Total distributive income/payment items. Combine line 1 through line 7 above. From the result subtract the sum of line 8 through line 12a and line 16a ●	23	
	b	Analysis by type of partner:		

	(a) Corporate	(b) Individual i. Active	(b) Individual ii. Passive	(c) Partnership	(d) Exempt Organization	(e) Nominee/ Other
(1) General partners						
(2) Limited partners						

Schedule M-1 Reconciliation of Income per Books With Income per Return. Use Total amount using California law.

1 Net income (loss) per books		**6** Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize: **a** Tax-exempt interest $ ______	●
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize	●	**7** Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize: **a** Depreciation $ ______	●
3 Guaranteed payments (other than health insurance)		**8** Total of line 6 and line 7	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize: **a** Depreciation $ ______ **b** Travel and entertainment $ ______ **c** Limited partnership tax $ ______	●	**9** Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5	
5 Total of line 1 through line 4			

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year		**6** Distributions: **a** Cash	●
2 Capital contributed during year	●	**b** Property	●
3 Net income (loss) per books		**7** Other decreases. Itemize	●
4 Other increases. Itemize	●	**8** Total of line 6 and line 7	
5 Total of line 1 through line 4		**9** Balance at end of year. Subtract line 8 from line 5	

TAXABLE YEAR | CALIFORNIA FORM

1996 Partnership Return of Income 565

For taxable or income year beginning MONTH ____ DAY ____ YEAR 1996, and ending MONTH ____ DAY ____ YEAR ____.

A Principal business activity name *(same as federal)*

Partnership name (place label within block or type or print) Check box if name changed ☐

D FEIN ●

DBA

E Date business started ●

B Principal product or service *(same as federal)*

Number and street (or PO Box number if mail is not delivered to street address)

F Enter total assets at end of year. See instructions. ● $

C Principal business code *(same as federal)* ●

City or town, state and ZIP code

I Check applicable box ● (1) ☐ Initial return (2) ☐ Final return (3) ☐ Amended return

G Check accounting method: ● (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (attach explanation)

H Secretary of State file number (10 digit) ●

J Enter the number of Schedule K-1s. Be sure to attach one for each person who was a partner at any time during the taxable year . ● ____

	Yes	No
K Is any member of the partnership related by blood or marriage to any other member? . . . ●		
L Is any member of the partnership a trust for the benefit of any person related by blood or marriage to any other member? . ●		
M Are any partners in this partnership also partnerships or LLCs?		
N Does the partnership meet all the requirements shown in the instructions for Question N? . . .		
O Is this partnership a partner in another partnership or LLC? If yes, attach a statement with the names and FEINs of each entity.		
P Was there a distribution of property or a transfer (e.g., by sale or death) of a partnership interest during the taxable year? If "yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754 ●		
Q Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)? . . .		
R Is this partnership under audit by the IRS or has it been audited in a prior year? . . . ●		

	Yes	No
S Did ownership control of this partnership or any of its subsidiaries or affiliates change this taxable year? (Do not leave blank) . . . . ●		
T Is this partnership a limited partnership? . . . ●		
U **(1)** Is this partnership a limited partnership that does business in California, is registered with the SOS or is organized in California? . . . ●		
(2) Is this partnership a REMIC? . . . ●		
(3) Is this partnership an LLP? . . . ●		
If yes on any of the above, see instructions and line 23 below.		
V **(1)** Does the partnership have any foreign partners? . . . ●		
(2) Does the partnership have any nonresident partners? . ●		
(3) Were Form 592, Form 592-A and Form 592-B filed for these partners? . . . ●		
W Is this an investment partnership? (See instructions.) . . . ●		

X Enter the ordinary income (loss) shown on federal Form 1065 for the same calendar or fiscal year (taxable year). Explain in a separate schedule any differences between federal ordinary income (loss) and the amount shown on line 22 . . . ● $____

Y Is partnership ● ☐ apportioning or ☐ not apportioning income to California?

Caution: Include **only** trade or business income and expenses on line 1a through line 21 below. See the instructions for more information.

Income	**1** **a** Gross receipts or sales $____ **1b** Less returns and allowances $____ . . . . Balance	**1c**		
	2 Cost of goods sold (Schedule A, line 8) . . .	**2**		
	3 Gross profit. Subtract line 2 from line 1c. . . . ●	**3**		
	4 Ordinary income (loss) from other partnerships and fiduciaries. Attach schedule. . . . ●	**4**		
	5 Net farm profit (loss). Attach federal Schedule F (Form 1040) . . . ●	**5**		
	6 Net gain (loss) from Schedule D-1, Part II, line 18 . . . ●	**6**		
	7 Other income (loss). Attach schedule . . . ●	**7**		
	8 **TOTAL** income (loss). Combine line 3 through line 7. . . . ●	**8**		
Deductions	**9** Salaries and wages (other than to partners). . . .	**9**		
	10 Guaranteed payments to partners . . . ●	**10**		
	11 Repairs . . .	**11**		
	12 Bad debts. . . . ●	**12**		
	13 Rent . . .	**13**		
	14 Taxes . . .	**14**		
	15 Deductible interest expense not claimed elsewhere on return . . .	**15**		
Attach check or money order here.	**16** **a** Depreciation and amortization. Attach form FTB 3885P $____ **b** Less depreciation reported on Schedule A and elsewhere on return $____ . . . Balance	**16c**		
	17 Depletion. Do not deduct oil and gas depletion . . .	**17**		
	18 Retirement plans, etc. . . .	**18**		
	19 Employee benefit programs . . .	**19**		
	20 Other deductions. Attach schedule . . . ●	**20**		
	21 **TOTAL** deductions. Add line 9 through line 20 . . . ●	**21**		
	22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8 . . . ●	**22**		
	23 **Tax — $800.00 (limited partnerships, LLPs and REMICs only).** See instructions. Make check payable to FTB. . . . ●	**23**		

Schedule A Cost of Goods Sold

1	Inventory at beginning of year	1	
2	Purchases less cost of items withdrawn for personal use	2	
3	Cost of labor	3	
4	Additional IRC Section 263A costs. Attach schedule	4	
5	Other costs. Attach schedule	5	
6	Total. Add line 1 through line 5	6	
7	Inventory at end of year	7	
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8	

9 a Check all methods used for valuing closing inventory:
● (1) ☐ Cost (2) ☐ Lower of cost or market as described in Treas. Reg. Section 1.471-4 (3) ☐ Writedown of ''subnormal'' goods as described in Treas. Reg. Section 1.471-2(c) (4) ☐ Other. Specify method used and attach explanation ____________

b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970 ☐

c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If ''yes,'' attach explanation ☐ Yes ☐ No

Schedule L Balance Sheets. See the instructions for Question N before completing Schedules L, M-1 and M-2.

Assets	Beginning of taxable year		End of taxable year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	( )		( )	●
10 a Depletable assets				
b Less accumulated depletion	( )		( )	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	( )		( )	
13 Other assets. Attach schedule				●
14 Total assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule				●
21 Partners' capital accounts				●
22 Total liabilities and capital				

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of general partner ▶ | Date | Telephone ( )

Paid Preparer's Use Only

Preparer's signature ▶ | Date | Check if self-employed ▶ ☐ | Preparer's SSN/FEIN

Firm's name (or yours, if self-employed) and address ▶ | FEIN ▶ | Telephone ▶ ( )

Schedule K Partners' Shares of Income, Deductions, Credits, Etc.

		(a) Distributive share items		(b) Total amount using California law
Income (Loss)	1	Ordinary income (loss) from trade or business activities (Side 1, line 22)	1	
	2	Net income (loss) from rental real estate activities. Attach federal Form 8825	2	
	3 a	Gross income from other rental activities — 3a		
	b	Less expenses. Attach schedule — 3b		
	c	Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c	
	4	Portfolio income (loss). See instructions:		
	a	Interest income ●	4a	
	b	Dividend income ●	4b	
	c	Royalty income ●	4c	
	d	Net capital gain (loss) (Schedule D (565))	4d	
	e	Other portfolio income (loss). Attach schedule ●	4e	
	5	Guaranteed payments to partners ●	5	
	6	Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1 ●	6	
	7	Other income (loss). Attach schedule	7	
Deductions	8 a	Charitable contributions. See instructions. Attach schedule	8a	
	b	Political contributions	8b	
	9	Expense deduction for recovery property (R&TC Sections 17252.5, 17265, 17266 and 17268 and IRC Section 179). Attach schedule or worksheet for 179 deductions	9	
	10	Deductions related to portfolio income (do not include investment interest expense)	10	
	11	Other deductions. Attach schedule	11	
Investment Interest	12 a	Interest expense on investment debts	12a	
	b	(1) Investment income included on line 4a through line 4e above	12b(1)	
		(2) Investment expenses included on line 10 above	12b(2)	
Credits	13 a	(1) Withholding on partnership allocated to all partners	13a(1)	
	b	Low-income housing credit	13b	
	c	Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule	13c	
	d	Credit(s) related to other rental activities. See instructions. Attach schedule	13d	
	14	Other credits. See instructions. Attach schedule ●	14	
Adjustments and Tax Preference Items	15 a	Depreciation adjustment on property placed in service after 1986	15a	
	b	Adjusted gain or loss	15b	
	c	Depletion (other than oil and gas)	15c	
	d	(1) Gross income from oil, gas and geothermal properties	15d(1)	
		(2) Deductions allocable to oil, gas and geothermal properties	15d(2)	
	e	Other adjustments and tax preference items. Attach schedule	15e	
Other	16 a	Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a	
	b	Type of expenditures	16b	
	17	Tax-exempt interest income	17	
	18	Other tax-exempt income	18	
	19	Nondeductible expenses	19	
	20	Distributions of money (cash and marketable securities)	20	
	21	Distribution of property other than money	21	
	22	Other items and amounts reported separately to partners. See instructions. Attach schedule	22	
Analysis	23 a	Total distributive income/payment items. Combine line 1 through line 7 above. From the result subtract the sum of line 8 through line 12a and line 16a ●	23	
	b	Analysis by type of partner:		

	(a) Corporate	(b) Individual i. Active	(b) Individual ii. Passive	(c) Partnership	(d) Exempt Organization	(e) Nominee/ Other
(1) General partners						
(2) Limited partners						

Schedule M-1 Reconciliation of Income per Books With Income per Return. Use Total amount using California law.

1 Net income (loss) per books		**6** Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize: **a** Tax-exempt interest $ ______	●
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize	●	**7** Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize: **a** Depreciation $ ______	●
3 Guaranteed payments (other than health insurance)		**8** Total of line 6 and line 7	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize: **a** Depreciation $ ______ **b** Travel and entertainment $ ______ **c** Limited partnership tax $ ______	●	**9** Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5	
5 Total of line 1 through line 4			

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year		**6** Distributions: **a** Cash	●
2 Capital contributed during year	●	**b** Property	●
3 Net income (loss) per books		**7** Other decreases. Itemize	●
4 Other increases. Itemize	●	**8** Total of line 6 and line 7	
5 Total of line 1 through line 4		**9** Balance at end of year. Subtract line 8 from line 5	

YEAR 1996

Partner's Share of Income, Deductions, Credits, etc.

CALIFORNIA SCHEDULE

K-1 (565)

For taxable or income year beginning MONTH ___ DAY ___ YEAR 1996, and ending MONTH ___ DAY ___ YEAR ___.

Partner's identifying number	**Partnership's FEIN**
Partner's name, address, state and ZIP code	**Secretary of State file number**
	Partnership's name, address, state and ZIP code

A Is this partner a: ● **(1)** ☐ general partner; or **(2)** ☐ limited partner?

B Partner's share of liabilities:

Nonrecourse . . . . $ ______

Qualified nonrecourse financing . . $ ______

Other . . . . $ ______

C What type of entity is this partner? ●

(1) ☐ Individual **(4)** ☐ Corporation **(7)** ☐ LLP

(2) ☐ S Corporation **(5)** ☐ General Partnership **(8)** ☐ IRA/Keogh/SEP

(3) ☐ Estate/Trust **(6)** ☐ LLC **(9)** ☐ Limited Partnership

D Check here if this partnership is a publicly traded partnership as defined in IRC Section 469(k)(2) . . . . ☐

E Enter partner's percentage (without regard to special allocations) of:

	(i) Before decrease or termination	**(ii)** End of year
Profit sharing	___.____%	● ___.____%
Loss sharing	___.____%	● ___.____%
Ownership of capital	___.____%	● ___.____%

F Tax shelter registration number ______

G Check here if this is: ●

(1) ☐ a final Schedule K-1 (565) **(2)** ☐ an amended Schedule K-1 (565)

H Is this partner a foreign partner? . . . . ● ☐ Yes ☐ No

I Is this partner a nonresident of California?. . . . . . ▶ ☐ Yes ● ☐ No

J Analysis of partner's capital account:

(a) Capital account at beginning of year	**(b)** Capital contributed during year	**(c)** Partner's share of line 3, line 4 and line 7 Form 565, Schedule M-2	**(d)** Withdrawals and distributions	**(e)** Capital account at end of year (combine column (a) through column (d))
			( )	

Caution: Refer to Partner's Instructions for federal Schedule K-1 (1065) before entering information from this schedule on your tax return.

	(a) Distributive share item	**(b)** Amount from federal Schedule K-1 (1065)	**(c)** Adjustments	**(d)** Total amounts using California law (Combine column (b) and column (c))	**(e)** California source amounts and credits
Income (Loss)	**1** Ordinary income (loss) from trade or business activities			●	▶
	2 Net income (loss) from rental real estate activities.			●	▶
	3 Net income (loss) from other rental activities				
	4 Portfolio income (loss):				
	a Interest			●	▶
	b Dividends			●	▶
	c Royalties			●	▶
	d Net capital gain (loss)			●	▶
	e Other portfolio income (loss) Attach schedule			●	▶
	5 Guaranteed payments to partners			●	▶
	6 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft)			●	▶
	7 Other income (loss). Attach schedule . . .			●	▶
Deductions	**8 a** Charitable contributions				
	b Political contributions				
	9 Expense deduction for recovery property (R&TC Sections 17252.5, 17265 and 17266 and IRC Section 179). Attach schedule.				
	10 Deductions related to portfolio income. Attach schedule				
	11 Other deductions. Attach schedule				

	(a) Distributive share item	(b) Amount from federal Schedule K-1 (1065)	(c) Adjustments	(d) Total amounts using California law (Combine column (b) and column (c))	(e) California source amounts and credits
Invest-ment Interest	12 a Interest expense on investment debts .				
	b (1) Investment income included on line 4a through line 4e				
	(2) Investment expenses included on line 10				
Credits	13 a (1) Withholding on partnership allocated to all partners				
	(2) Partnership withholding on nonresident partners				
	(3) Total withholding (equals amount on Form 592-B if calendar year partnership)			●	▶
	b Low-income housing credit				
	c Credits other than line 13b related to rental real estate activities. Attach schedule				
	d Credits related to other rental activities. See instructions. Attach schedule . . .				
	14 Other credits. Attach required schedules or statements.				
Adjust-ments and Tax Prefer-ence Items	15 a Depreciation adjustment on property placed in service after 1986				
	b Adjusted gain or loss				
	c Depletion (other than oil and gas) . . .				
	d (1) Gross income from oil, gas and geothermal properties				
	(2) Deductions allocable to oil, gas and geothermal properties				
	e Other adjustments and tax preference items. Attach schedule				
Other	16 a Total expenditures to which an IRC Section 59(e) election may apply .				
	b Type of expenditures______________				
	17 Tax-exempt interest income.				
	18 Other tax-exempt income				
	19 Nondeductible expenses				
	20 Distributions of money (cash and marketable securities)				
	21 Distributions of property other than money				

22 Supplemental information required to be reported separately to each partner. Attach additional schedules. See instructions. $ ______________

Table 1 — Income of the partnership not attributable to the business, trade or profession of the partnership (nonbusiness income)

A. Partner's share of income from real and tangible property in California:

Capital Gains/Losses $ ______________ Rents/Royalties $ ______________

1231 Gains/Losses $ ______________ Other $ ______________

B. Partner's share of income from intangibles:

Interest $ ______________ Royalties $ ______________ Dividends $ ______________

1231 Gains/Losses $ ______________ Capital Gains/Losses $ ______________ Other $ ______________

C. California credits (attach schedule of credits). $ ______________

Table 2 — Unitary partner's share of business income and factors

A. Partner's share of the partnership's business income. See instructions. $ ______________

B. Partner's share of the partnership's property, payroll and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	$	$
Ending	$	$
Payroll	$	$
Sales	$	$

YEAR
1996

Partner's Share of Income, Deductions, Credits, etc.

CALIFORNIA SCHEDULE
K-1 (565)

For taxable or income year beginning MONTH ____ DAY ____ YEAR 1996, and ending MONTH ____ DAY ____ YEAR ____.

Partner's identifying number	Partnership's FEIN
Partner's name, address, state and ZIP code	Secretary of State file number
	Partnership's name, address, state and ZIP code

A Is this partner a: ● **(1)** ☐ general partner; or **(2)** ☐ limited partner?

B Partner's share of liabilities:

Nonrecourse . . . . $ ____

Qualified nonrecourse financing . . $ ____

Other . . . . $ ____

C What type of entity is this partner? ●

(1) ☐ Individual **(4)** ☐ Corporation **(7)** ☐ LLP

(2) ☐ S Corporation **(5)** ☐ General Partnership **(8)** ☐ IRA/Keogh/SEP

(3) ☐ Estate/Trust **(6)** ☐ LLC **(9)** ☐ Limited Partnership

D Check here if this partnership is a publicly traded partnership as defined in IRC Section 469(k)(2) . . . . ☐

E Enter partner's percentage (without regard to special allocations) of:

	(i) Before decrease or termination	**(ii)** End of year
Profit sharing	___ . _____ %	● ___ . _____ %
Loss sharing	___ . _____ %	● ___ . _____ %
Ownership of capital	___ . _____ %	● ___ . _____ %

F Tax shelter registration number ____

G Check here if this is: ●

(1) ☐ a final Schedule K-1 (565) **(2)** ☐ an amended Schedule K-1 (565)

H Is this partner a foreign partner? . . . . ● ☐ Yes ☐ No

I Is this partner a nonresident of California?. . . . . . ▶ ☐ Yes ● ☐ No

J Analysis of partner's capital account:

(a) Capital account at beginning of year	**(b)** Capital contributed during year	**(c)** Partner's share of line 3, line 4 and line 7 Form 565, Schedule M-2	**(d)** Withdrawals and distributions	**(e)** Capital account at end of year (combine column (a) through column (d))
			( )	

Caution: Refer to Partner's Instructions for federal Schedule K-1 (1065) before entering information from this schedule on your tax return.

	(a) Distributive share item	**(b)** Amount from federal Schedule K-1 (1065)	**(c)** Adjustments	**(d)** Total amounts using California law (Combine column (b) and column (c))	**(e)** California source amounts and credits
Income (Loss)	**1** Ordinary income (loss) from trade or business activities			●	▶
	2 Net income (loss) from rental real estate activities.			●	▶
	3 Net income (loss) from other rental activities				
	4 Portfolio income (loss):				
	a Interest			●	▶
	b Dividends			●	▶
	c Royalties			●	▶
	d Net capital gain (loss)			●	▶
	e Other portfolio income (loss) Attach schedule			●	▶
	5 Guaranteed payments to partners			●	▶
	6 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft)			●	▶
	7 Other income (loss). Attach schedule . . .			●	▶
Deductions	**8 a** Charitable contributions				
	b Political contributions				
	9 Expense deduction for recovery property (R&TC Sections 17252.5, 17265 and 17266 and IRC Section 179). Attach schedule.				
	10 Deductions related to portfolio income. Attach schedule				
	11 Other deductions. Attach schedule				

	(a) Distributive share item	(b) Amount from federal Schedule K-1 (1065)	(c) Adjustments	(d) Total amounts using California law (Combine column (b) and column (c))	(e) California source amounts and credits
Invest-ment Interest	12 a Interest expense on investment debts .				
	b (1) Investment income included on line 4a through line 4e				
	(2) Investment expenses included on line 10				
Credits	13 a (1) Withholding on partnership allocated to all partners				
	(2) Partnership withholding on nonresident partners				
	(3) Total withholding (equals amount on Form 592-B if calendar year partnership)			●	▶
	b Low-income housing credit				
	c Credits other than line 13b related to rental real estate activities. Attach schedule				
	d Credits related to other rental activities. See instructions. Attach schedule . . .				
	14 Other credits. Attach required schedules or statements.				
Adjust-ments and Tax Prefer-ence Items	15 a Depreciation adjustment on property placed in service after 1986				
	b Adjusted gain or loss				
	c Depletion (other than oil and gas) . . .				
	d (1) Gross income from oil, gas and geothermal properties				
	(2) Deductions allocable to oil, gas and geothermal properties				
	e Other adjustments and tax preference items. Attach schedule				
Other	16 a Total expenditures to which an IRC Section 59(e) election may apply .				
	b Type of expenditures_______________				
	17 Tax-exempt interest income.				
	18 Other tax-exempt income				
	19 Nondeductible expenses				
	20 Distributions of money (cash and marketable securities)				
	21 Distributions of property other than money				

22 Supplemental information required to be reported separately to each partner. Attach additional schedules. See instructions. $ ____________

Table 1 — Income of the partnership not attributable to the business, trade or profession of the partnership (nonbusiness income)

A. Partner's share of income from real and tangible property in California:

Capital Gains/Losses $ ____________ Rents/Royalties $ ____________

1231 Gains/Losses $ ____________ Other $ ____________

B. Partner's share of income from intangibles:

Interest $ ____________ Royalties $ ____________ Dividends $ ____________

1231 Gains/Losses $ ____________ Capital Gains/Losses $ ____________ Other $ ____________

C. California credits (attach schedule of credits). $ ____________

Table 2 — Unitary partner's share of business income and factors

A. Partner's share of the partnership's business income. See instructions. $ ____________

B. Partner's share of the partnership's property, payroll and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	$	$
Ending	$	$
Payroll	$	$
Sales	$	$

TAXABLE YEAR — CALIFORNIA FORM

1996 Depreciation and Amortization 3885P

Name as shown on return	FEIN

Assets placed in service after 12/31/95 (depreciation):
Property placed in service after 12/31/95 (amortization):

1 (a) Description of property	(b) Date acquired	(c) Cost or other basis	Depreciation of Assets (d) Method of figuring depreciation	(e) Life or rate	(f) Depreciation for this year	Amortization of Property (g) Code section	(h) Period or percentage	(i) Amortization for this year
Enter line 1, column (f) and column (i) totals here								

Depreciation

2 California depreciation for assets placed in service before January 1, 1996	2	
Note: Be sure to make adjustments for any basis differences.		
3 Total California depreciation. Add line 1(f) and line 2	3	
Amortization		
4 California amortization for assets placed in service before January 1, 1996	4	
Note: Be sure to make adjustments for any basis differences.		
5 Total California amortization. Add line 1(i) and line 4	5	
6 Total depreciation and amortization. Add line 3 and line 5. Enter the total here and on Form 565, Side 1, line 16a, if from a trade or business, or on federal Form 8825, line 14, if from rental real estate activities	6	
7 Section 179 Expense election from worksheet. See instructions	7	

TAXABLE YEAR — CALIFORNIA SCHEDULE

1996 Capital Gain or Loss D (565)

Name as shown on return	FEIN

1 (a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sale price. See instructions.	(e) Cost or other basis. See instructions.	(f) Gain (loss) ((d) minus (e))

1 Enter line 1, column (f) total here	1	
2 Capital gain from installment sales, form FTB 3805E, line 26 or line 37	2	
3 Partnership's share of net capital gain (loss), including gains (losses) from other partnerships, fiduciaries and S corporations	3	
4 Capital gain distributions	4	
5 Net capital gain (loss). Add line 1, line 2, line 3 and line 4. Enter each partner's share on Schedule K-1 (565), line 4d	5	

Instructions for Form FTB 3885P
Depreciation and Amortization

General Information

A Purpose

Depreciation is the annual deduction allowed to recover the cost or other basis of business or income producing property with a determinable useful life of more than one year. Land is not depreciable.

Amortization is similar to the straight-line method of depreciation in that an annual deduction is allowed to recover certain costs of intangibles over a fixed period of time.

In general, California law follows federal law for assets placed in service on or after January 1, 1987, for personal income tax — see R&TC Section 17250.

Use form FTB 3885P to compute depreciation and amortization allowed as a deduction on Form 565. Attach form FTB 3885P to Form 565.

B Calculation Methods

California did not allow depreciation under the federal Accelerated Cost Recovery System (ACRS) for years prior to 1987.

The partnership must continue calculating the California depreciation deduction for assets placed in service before January 1, 1987, in the same manner as in prior years. Refer to the partnership's tax returns for 1986 and earlier to determine how the partnership must continue depreciating these assets. The most common methods used to calculate depreciation for years prior to 1987 were:

- Straight-line;
- Declining balance; and
- Sum-of-the-years digits.

Specific Line Instructions

Line 1 – California depreciation for assets placed in service after December 31, 1995 and amortization for assets and property placed in service after December 31, 1995.

Complete column (a) through column (i) for each asset or group of assets for property placed in service after December 31, 1995. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

Line 2 – California depreciation for assets placed in service before January 1, 1996

Enter total California depreciation for assets placed in service prior to January 1, 1996, taking into account any differences in asset basis or differences in California and federal tax law.

Line 4 – California amortization for assets placed in service before January 1, 1996

Enter total California amortization for assets taking into account any differences in asset basis or differences in California and federal tax law.

California has conformed to IRC Section 197 relating to the amortization of intangibles as of January 1, 1994. No deduction is allowed under this section for any taxable year beginning prior to January 1, 1994. If a taxpayer made an election for federal purposes under the Revenue Reconciliation Act of 1993 (P.L. 103-66), relating to the election to have amendments apply to property acquired after July 25, 1991, or relating to an elective binding contract exception, a separate election for state purposes is not allowed under paragraph (3) of subdivision (e) of R&TC Section 17024.5, and the federal election is binding. In the case of an intangible that was acquired in a taxable year beginning before January 1, 1994, and that is amortized under IRC Section 197, the amount to be amortized cannot exceed the adjusted basis of that intangible as of the first day of the first taxable year beginning on or after January 1, 1994. This amount must be amortized ratably over the period beginning on or after January 1, 1994, and ending 15 years after the month in which the intangible was acquired.

Assets with a Federal Basis Different from California Basis

Some assets placed in service on or after January 1, 1987, will have a different adjusted basis for California purposes due to the credits claimed or accelerated write-offs of the assets. Review the list of depreciation and amortization items in the instructions for Schedule CA (540), California Adjustments — Residents, and Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents. If the partnership has any other adjustments to make, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information.

Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 565, line 16a.

If depreciation or amortization is from rental real estate activities, it may be necessary to complete another form FTB 3885P for those activities. In this case, enter the amount from this second form FTB 3885P, line 6 on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S corporation, line 14. Use California amounts to determine the depreciation or amortization on federal Form 8825.

Line 7 – Enter the IRC Section 179 expense election from the worksheet below.

Election to Expense Certain Tangible Property (IRC Section 179)

Note: Follow the instructions on federal Form 4562 for Listed Property.

1. Maximum dollar limitation . . $10,000
2. Total cost of IRC Section 179 property placed in service during the tax year . . . . ______
3. Threshold cost of IRC Section 179 property before reduction in limitation $200,000
4. Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- . . . . ______
5. Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0- . . . . . ______

	(a) Property	**(b)** Cost	**(c)** Elected cost
6.			

7. Listed property. Use federal Form 4562, Part V, line 24 and line 25 making any adjustments for California law and basis differences . . . . ______

8. Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7 ______
9. Tentative deduction. Enter the smaller of line 5 or line 8. . . ______
10. Carryover of disallowed deduction from 1995. See instructions for line 9 through line 12 on the federal form 4562. . . ______
11. Income limitation. Enter the smaller of line 5 or the aggregate of the partnership's items of income and expense described in IRC Section 702(a) from any business actively conducted by the partnership (other than credits, tax-exempt IRC Section 179 expense deduction and guaranteed payments under IRC Section 707(c)) . . . . . . ______
12. IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter here and on Schedule K (565), line 9 . . . ______
13. Carryover of disallowed deduction to 1997. Add line 9 and line 10 and subtract line 12. Enter on line 7 of form FTB 3885P. . . . . ______

Instructions for Schedule D (565)

Capital Gain or Loss

General Information

Use Schedule D (565) to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any partners.

Enter specially allocated capital gains (losses) received by the partnership as a partner in other partnerships and from fiduciaries on Schedule D (565), line 3. Enter capital gains (losses) that are specially allocated to partners on line 4d of Schedule K (565) and Schedule K-1 (565). Do not include these amounts on Schedule D (565). See the instructions for Schedule K (565) and Schedule K-1 (565) for more information. Also refer to the instructions for federal Schedule D (1065).

TAXABLE YEAR 1996

Instructions for Automatic Extension for Limited Partnerships, LLPs and REMICs

CALIFORNIA FORM 3538

General Information

If a limited partnership, limited liability partnership (LLP) or real estate mortgage investment conduit (REMIC) cannot file its California partnership return by the 15th day of the fourth month following the close of the taxable year (fiscal year filers) or April 15, 1997 (calendar year filers), it may file its partnership return on or before the 15th day of the tenth month following the close of the taxable year (fiscal year filers) or October 15, 1997 (calendar year filers), without filing a written request.

However, to avoid late payment penalties and interest, 100 percent of the limited partnership's, LLP's or REMIC's tax liability of $800 must be paid by the 15th day of the fourth month following the close of the taxable year (fiscal year filers) or April 15, 1997 (calendar year filers). Use the payment voucher below to mail in the payment. Enter the tax due on the form FTB 3538 voucher below and **mail only the voucher portion** with the payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0651

The partnership return, when filed on or before the 15th day of the tenth month following the close of the taxable year (fiscal year filers) or October 15, 1997 (calendar year filers), will verify that the limited partnership, LLP or REMIC qualified for the extension.

Note: If the limited partnership, LLP or REMIC pays the tax liability with form FTB 3538, write ''paid with form FTB 3538'' below line 23 on Form 565, Partnership Return of Income and do not enter the $800 tax on line 23.

Penalties and Interest

Remember, an extension of time to file the partnership, LLP or REMIC return is not an extension of time to pay the tax. If the limited partnership, LLP or REMIC fails to pay its total tax liability by the 15th day of the fourth month following the close of the taxable year (fiscal year filers) or April 15, 1997 (calendar year filers), a late payment penalty plus interest will be added to the partnership tax due. If the limited partnership, LLP or REMIC does not file its return by the 15th day of the tenth month following the close of the taxable year (fiscal year filers) or October 15, 1997 (calendar year filers), no extension exists and a late filing penalty and interest will be assessed.

CUT HERE

TAXABLE YEAR 1996

Payment Voucher for Automatic Extension for Limited Partnerships, LLPs and REMICs

CALIFORNIA FORM 3538

Partnership/LLP/REMIC name	Federal employer identification number
DBA	Fiscal year filers, enter year ending
Present address (number and street including apartment number, P.O. Box or rural route)	
City, town or post office, state and ZIP code	

565

IF NO PAYMENT IS DUE, DO NOT FILE THIS FORM

Amount of payment $ ______ 00

MAIL TO: FRANCHISE TAX BOARD **(Calendar year — Due April 15, 1997)**
PO BOX 942857
SACRAMENTO CA 94257-0651

TAXABLE YEAR

CALIFORNIA FORM

1996 Depreciation and Amortization 3885P

Name as shown on return	FEIN

Assets placed in service after 12/31/95 (depreciation):
Property placed in service after 12/31/95 (amortization):

1 (a) Description of property	(b) Date acquired	(c) Cost or other basis	Depreciation of Assets (d) Method of figuring depreciation	(e) Life or rate	(f) Depreciation for this year	Amortization of Property (g) Code section	(h) Period or percentage	(i) Amortization for this year
Enter line 1, column (f) and column (i) totals here								

Depreciation

2	California depreciation for assets placed in service before January 1, 1996 2	
	Note: Be sure to make adjustments for any basis differences.	
3	Total California depreciation. Add line 1(f) and line 2 3	

Amortization

4	California amortization for assets placed in service before January 1, 1996 4	
	Note: Be sure to make adjustments for any basis differences.	
5	Total California amortization. Add line 1(i) and line 4 5	
6	Total depreciation and amortization. Add line 3 and line 5. Enter the total here and on Form 565, Side 1, line 16a, if from a trade or business, or on federal Form 8825, line 14, if from rental real estate activities 6	
7	Section 179 Expense election from worksheet. See instructions 7	

TAXABLE YEAR

CALIFORNIA SCHEDULE

1996 Capital Gain or Loss D (565)

Name as shown on return	FEIN

1 (a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sale price. See instructions.	(e) Cost or other basis. See instructions.	(f) Gain (loss) ((d) minus (e))

1	Enter line 1, column (f) total here. 1	
2	Capital gain from installment sales, form FTB 3805E, line 26 or line 37 2	
3	Partnership's share of net capital gain (loss), including gains (losses) from other partnerships, fiduciaries and S corporations . 3	
4	Capital gain distributions. 4	
5	Net capital gain (loss). Add line 1, line 2, line 3 and line 4. Enter each partner's share on Schedule K-1 (565), line 4d 5	

Instructions for Form FTB 3885P

Depreciation and Amortization

General Information

A Purpose

Depreciation is the annual deduction allowed to recover the cost or other basis of business or income producing property with a determinable useful life of more than one year. Land is not depreciable.

Amortization is similar to the straight-line method of depreciation in that an annual deduction is allowed to recover certain costs of intangibles over a fixed period of time.

In general, California law follows federal law for assets placed in service on or after January 1, 1987, for personal income tax — see R&TC Section 17250.

Use form FTB 3885P to compute depreciation and amortization allowed as a deduction on Form 565. Attach form FTB 3885P to Form 565.

B Calculation Methods

California did not allow depreciation under the federal Accelerated Cost Recovery System (ACRS) for years prior to 1987.

The partnership must continue calculating the California depreciation deduction for assets placed in service before January 1, 1987, in the same manner as in prior years. Refer to the partnership's tax returns for 1986 and earlier to determine how the partnership must continue depreciating these assets. The most common methods used to calculate depreciation for years prior to 1987 were:

- Straight-line;
- Declining balance; and
- Sum-of-the-years digits.

Specific Line Instructions

Line 1 – California depreciation for assets placed in service after December 31, 1995 and amortization for assets and property placed in service after December 31, 1995.

Complete column (a) through column (i) for each asset or group of assets for property placed in service after December 31, 1995. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

Line 2 – California depreciation for assets placed in service before January 1, 1996

Enter total California depreciation for assets placed in service prior to January 1, 1996, taking into account any differences in asset basis or differences in California and federal tax law.

Line 4 – California amortization for assets placed in service before January 1, 1996

Enter total California amortization for assets taking into account any differences in asset basis or differences in California and federal tax law.

California has conformed to IRC Section 197 relating to the amortization of intangibles as of January 1, 1994. No deduction is allowed under this section for any taxable year beginning prior to January 1, 1994. If a taxpayer made an election for federal purposes under the Revenue Reconciliation Act of 1993 (P.L. 103-66), relating to the election to have amendments apply to property acquired after July 25, 1991, or relating to an elective binding contract exception, a separate election for state purposes is not allowed under paragraph (3) of subdivision (e) of R&TC Section 17024.5, and the federal election is binding. In the case of an intangible that was acquired in a taxable year beginning before January 1, 1994, and that is amortized under IRC Section 197, the amount to be amortized cannot exceed the adjusted basis of that intangible as of the first day of the first taxable year beginning on or after January 1, 1994. This amount must be amortized ratably over the period beginning on or after January 1, 1994, and ending 15 years after the month in which the intangible was acquired.

Assets with a Federal Basis Different from California Basis

Some assets placed in service on or after January 1, 1987, will have a different adjusted basis for California purposes due to the credits claimed or accelerated write-offs of the assets. Review the list of depreciation and amortization items in the instructions for Schedule CA (540), California Adjustments — Residents, and Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents. If the partnership has any other adjustments to make, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information.

Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 565, line 16a.

If depreciation or amortization is from rental real estate activities, it may be necessary to complete another form FTB 3885P for those activities. In this case, enter the amount from this second form FTB 3885P, line 6 on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S corporation, line 14. Use California amounts to determine the depreciation or amortization on federal Form 8825.

Line 7 – Enter the IRC Section 179 expense election from the worksheet below.

Election to Expense Certain Tangible Property (IRC Section 179)

Note: Follow the instructions on federal Form 4562 for Listed Property.

1. Maximum dollar limitation . . $10,000
2. Total cost of IRC Section 179 property placed in service during the tax year . . . . ________
3. Threshold cost of IRC Section 179 property before reduction in limitation $200,000
4. Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- . . . . ________
5. Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0- . . . . . ________

	(a) Property	**(b)** Cost	**(c)** Elected cost
6.			

7. Listed property. Use federal Form 4562, Part V, line 24 and line 25 making any adjustments for California law and basis differences . . . . ________

8. Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7 ________
9. Tentative deduction. Enter the smaller of line 5 or line 8. . . ________
10. Carryover of disallowed deduction from 1995. See instructions for line 9 through line 12 on the federal form 4562. . . ________
11. Income limitation. Enter the smaller of line 5 or the aggregate of the partnership's items of income and expense described in IRC Section 702(a) from any business actively conducted by the partnership (other than credits, tax-exempt IRC Section 179 expense deduction and guaranteed payments under IRC Section 707(c)) . . . . . . ________
12. IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter here and on Schedule K (565), line 9 . . . ________
13. Carryover of disallowed deduction to 1997. Add line 9 and line 10 and subtract line 12. Enter on line 7 of form FTB 3885P. . . . . ________

Instructions for Schedule D (565)

Capital Gain or Loss

General Information

Use Schedule D (565) to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any partners.

Enter specially allocated capital gains (losses) received by the partnership as a partner in other partnerships and from fiduciaries on Schedule D (565), line 3. Enter capital gains (losses) that are specially allocated to partners on line 4d of Schedule K (565) and Schedule K-1 (565). Do not include these amounts on Schedule D (565). See the instructions for Schedule K (565) and Schedule K-1 (565) for more information. Also refer to the instructions for federal Schedule D (1065).

Partner's Instructions for Schedule K-1 (565)

General Information

A Purpose

The partnership uses Schedule K-1 (565) to report to you your share of the partnership's income, deductions, credits, etc. Please keep it for your records. Do not file it with your tax return. The partnership has filed a copy with the FTB.

Although the partnership is not subject to income tax, you are subject to tax on your share of the partnership income, whether or not distributed.

The amount of loss and deduction that you may claim on your tax return may be less than the amount reported on Schedule K-1 (565). Generally, the amount of loss and deduction you may claim is limited to your basis in the partnership and the amount for which you are considered at-risk. If you have losses, deductions or credits from a passive activity, you must also apply the passive activity rules. It is the partner's responsibility to consider and apply any applicable limitations. See General Line Instruction A, Limitations on Losses, Deductions and Credits.

You should read the federal Schedule K-1 (1065) instructions before completing your tax return with this Schedule K-1 (565) information.

B Definitions

General Partner

A general partner is a member of the organization who is personally liable for partnership debts.

Limited Partner

A limited partner is one whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Nonrecourse Loans

Nonrecourse loans are those liabilities of the partnership for which none of the partners has any personal liability.

Corporate Limited Partners

Corporate limited partners of partnerships doing business in California are not considered to be doing business in California and are therefore not subject to the corporate franchise tax.

Apportionment

Apportionment is the process by which business income from a trade or business which is conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. The apportionment percentage is determined by reference to the California property, payroll and sales factors of the apportioning trade or business. The total business income of the unitary business is multiplied by this percentage to derive the amount of business income apportioned to California.

Unitary

Under the unitary method, all of the activities comprising a single trade or business are viewed as a single unit, irrespective of whether those activities are conducted by divisions of a single entity or by commonly owned or controlled entities. The business income from all of the unitary business activities is combined into a single report. An apportionment formula is then applied to the combined business income to determine the portion attributable to California. For further information about unitary business principles, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Elections

Generally, the partnership decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made by you separately on your individual income tax return and not by the partnership. These elections are made under the following federal Internal Revenue Code (IRC) sections, to which California conforms:

- IRC Section 108(b)(5) (income from discharge of indebtedness); and
- IRC Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred).

Additional Information

For more information on the treatment of partnership income, deductions, credits, etc., get the following federal publications: Publication 541, Partnerships, and Publication 535, Business Expenses.

C Specific Instructions

Questions and Items A through I

The partnership completes the questions and items at the top of Schedule K-1 (565) for all partners. For more information, see the federal instructions for Schedule K-1 (1065).

Schedule K-1 (565)

Important Note to Partners: If your Schedule K-1 (565) reports losses and/or deductions, you must first apply the basis limitations described under IRC Section 704(d), the at-risk limitations found under IRC Section 465, and the passive activity loss limitations under IRC Section 469 before such losses/deductions can be deducted on your return. See General Line Instruction A, Limitations on Losses, Deductions and Credits, for additional information. IRC Section 705(a) provides direction on how to compute your basis. If your return is ever examined, you may be required to provide your computations and the supporting documents. You will also need to know your basis if you ever transfer, sell, or exchange your interest in the partnership and if the partnership terminates.

If you are an individual partner, the amounts in column (c), California adjustments, that are from nonpassive activities must be reported on the appropriate California form or schedule; i.e., Schedule D, California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540), California Adjustments — Residents, or Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents.

Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801, Passive Activity Loss Limitations, and the related worksheets that are used to figure any passive loss limitations.

If you are not an individual partner, report the amounts as instructed on your tax return.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 (565) to get a net figure to report on any supporting schedules, statements or forms attached to your return. Instead, report the amounts on an attached schedule, statement or form on a year-by-year basis.

See the federal instructions for Schedule K-1 (1065), At-Risk Limitations, for more information.

D Reporting Information from Columns (d) and (e)

If the partnership income is from activities both within and outside of California, the partnership will complete Schedule R, Apportionment and Allocation of Income, to determine the partnership income from California sources. Resident partners will use only the information in column (c) and column (d) to report their share of the partnership's income or loss. Nonresident, other entity and corporate partners must report their share of income apportioned or allocated to California as indicated on Schedule K-1 (565). Special rules apply if a partner and the partnership engage in a unitary business. See Title 18, Cal. Code Reg. Sections 17951, 25137-1 for more information. Also see General Information F, Unitary Partners. Nonresident, other entity and corporate partners (other than partners that are unitary with the partnership) will use the information in columns (c), (d) and (e) to report their distributive share of income (losses) or credits. The data in Table 1, Part A has already been reflected in column (e). Residents, part-year residents and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California.

E Income not from a Trade Or Business of the Partnership

If the partnership has income that is not from a trade or business (nonbusiness income), the source of that income will be determined at the partner level. Generally, income from real or tangible property located in California, such as rents, royalties, gains or losses, is California source income (Title 18 Cal., Code Reg. Section 17951-3 and R&TC Sections 25124 and 25125). This information should be included on the appropriate line of column (e), as well as in Table 1, Part A. Non-unitary members should ignore the information in Table 1, Part A.

The source of income from intangibles will depend on whether the partner is required to apportion its income and whether the partner is a corporation. In most cases, income from intangible property is sourced at the residence (or commercial domicile of a corporation) of the partner.

However, for individuals, estates, and trusts that are not required to apportion their income, income from an intangible will have a California source if the intangible has acquired a California business situs. See Title 18, Cal. Code Reg. Sections 17951-3 and 17952. If the intangible income is determined to have a business situs by the partnership, the intangible income will be included in column (e).

If the partner is an apportioning taxpayer or is a corporation, Title 18, Cal. Code Reg. Sections 17951-4 and 25137-1 require that income from intangibles be characterized as nonbusiness income and allocated in accordance with the rules of R&TC Sections 25126 and 25127.

Because the source of intangible income is dependent upon the status of the individual partner, that income is not included in column (e) and is entered only in Table 1, Part B. The partner must determine the source of such income by applying the rules described above.

F Unitary Partners

Note: The following rules apply not only to corporations, but to an individual or other entity that conducts a trade or business that is unitary with the partnership (see Title 18, Cal. Code Reg. Section 17951, incorporating the provisions of Section 25137 and regulations thereunder).

Unitary partners cannot use the California source information reflected in column (e). Such partners must use the information in Table 1 and Table 2, as described below.

The partner's distributive share of partnership items is determined by applying the partnership rules in R&TC Sections 17851 through 17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in this state or that is includible in the partner's business income subject to apportionment are made in accordance with Title 18, Cal. Code Reg. Section 25137-1 if the partner, or the partnership, or both, have income from sources within and outside this state. The partner, in computing net income for its tax accounting period, must include its distributive share of partnership items referred to above for any partnership taxable year ending within or with the partner's tax accounting period.

Distributive Items of Business Income

Apportionment of Business Income – Unitary Business — If the partnership's activities and the partner's activities constitute a unitary business under established standards, disregarding ownership requirements, the combined business income of this single trade or business apportioned to California is determined by combining the partner's distributive share of the partnership's apportionment factors for any partnership year ending within the partner's tax accounting period with the factors of the partner. Combined business income is then apportioned by using a 3 or 4 factor formula consisting of property, payroll and a single or double-weighted sales factor of the partner. Use of a 3 or 4 factor formula depends upon whether combined gross business receipts (partner's share of the partnership's gross business receipts plus the partner's own gross business receipts) are primarily from agricultural, extractive, savings and loans or banks and financial activities.

If you are a partner that is unitary with a partnership, use Table 2 to compute your factors, applying the rules shown below (see Title 18, Cal. Code Reg. Section 25127-1 for examples). Partners that are unitary with the partnership should perform the following steps:

1. Combine your distributive share of the partnership's business income with your own business income to determine total business income.
2. Compute property, payroll and sales factors by combining the partnership's factors from Table 2, Part B with your own factors as explained below.
3. Apply the apportionment factor determined in Step 2 to the total business income determined in Step 1 to arrive at business income apportioned to this state.

1. Unitary Partner's Computation of Property Factor

Use Schedule R to compute the numerator and the denominator of the property factor. Adjust factors in accordance with Title 18, Cal. Code Reg. Sections 25130 and 25131. Also apply the following special rules:

A. Include in the denominator of the partner's property factor the partnership's beginning and ending balances from Table 2, Part B of real and tangible property (owned or rented) and used during the tax accounting period in the regular course of business, to the extent of the partner's interest in the partnership; and

B. Include in the numerator of the partner's property factor the value of such property that is described in 1A above and that is located in California.
C. See Title 18, Cal. Code Reg. Section 25137-1(f)(1)(B) for examples of how to include the value of property that is rented by the partner to the partnership or by the partnership to the partner.

2. Unitary Partner's Computation of Payroll Factor

Use Schedule R to compute the numerator and the denominator of the payroll factor in accordance with Title 18, Cal. Code Reg. Sections 25132 and 25133. Apply the following special rules:

A. Include in the denominator of the partner's payroll factor the partnership's payroll used to produce business income from Table 2, Part B; and
B. Include in the numerator any such payroll described in 2A that is applicable to California.

3. Unitary Partner's Computation of the Sales Factor

Compute the numerator and denominator of the sales factor in accordance with the Title 18, Cal. Code Reg. Sections 25134 to 25136. Apply the following special rules:

A. Include in the denominator of the sales factor the partnership's sales that give rise to business income from Table 2, Part B;
B. Include in the numerator of the partner's sales factor the amount of such sales described in 3A attributable to California; and
C. Eliminate intercompany sales as follows:
   - Sales by the partner to the partnership to the extent of the partner's interest in the partnership; or
   - Sales by the partnership to the partner not to exceed the partner's interest in all partnership sales (see Title 18, Cal. Code Reg. Section 25137-1(f)(3)).

Distributive Items of Nonbusiness Income for a Unitary Partner

Income in Table 1, Part A is from a California source under R&TC Sections 25124 and 25125. Because Schedule K-1 (565), column (e) data is not utilized by a unitary partner, partners must make certain to separately include such items as California source income.

Income in Table 1, Part B is the partner's share of all intangible income. Such income is California source income to the extent allocated to the state under R&TC Sections 25126 and 25127.

General Line Instructions

Line 1 through Line 3 – The amounts shown on line 1 through line 3 reflect your share of income or loss from partnership business or rental operations without reference to limitations on losses or adjustments that may be required of you because of:

- The adjusted basis of your partnership interest;
- The amount for which you are at-risk as determined under IRC Section 465; or
- The passive activity limitations of IRC Section 469.

See the federal instructions for line 1 through line 24 for more information. **Note:** Federal line 15a through line 15c and line 17a through line 17g do not apply to California.

A Limitations on Losses, Deductions and Credits

There are three separate potential limitations on the amount of partnership losses that you may deduct on your return. These limitations and the order in which they must be applied are: the basis rules, the at-risk rules and the passive loss rules. Each of these limitations is discussed separately below.

Note: Other limitations may apply to specific deductions such as, the investment interest expense deduction. These limitations on specific deductions generally apply before the basis, at-risk and passive loss limitations.

Basis Rules

Generally, you may not claim your share of a partnership loss (including a capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership's taxable year.

You can compute the adjusted basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Items that increase your basis are:

- Money and your adjusted basis of property contributed to the partnership;
- Your distributive share of the partnership's income; and
- Your distributive share of the increase in the liabilities of the partnership (and/or your individual liabilities caused by your assumption of partnership liabilities).

Items that decrease your basis are:

- Money and your adjusted basis of property distributed to you;
- Your share of the partnership's losses; and
- Your share of the decrease in the liabilities of the partnership (and/or your individual liabilities assumed by the partnership).

This is not a complete list of items and factors that determine basis. Get federal Publication 541 for a complete discussion of how to determine the adjusted basis of your partnership interest.

Generally, the California basis is the same as the federal basis.

At-Risk Rules

Generally, if you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return. Complete federal Form 6198 using California amounts.

The at-risk rules generally limit the amount of loss, (including loss on disposition of assets) and other deductions (such as the IRC Section 179, R&TC Sections 17252.5, 17265, 17266 and 17268 deduction) that you can claim to the amount you could actually lose in the activity. See the federal instructions for Schedule K-1 (1065), At-Risk Limitations, for more information.

Passive Loss Rules

IRC Section 469 limits the deduction of certain losses and credits. California law is the same as this federal provision. These rules apply to partners who:

- Are individuals, estates, trusts, closely held corporations, personal service corporations or S corporations; and
- Have a passive activity loss or credit for the taxable year.

A passive activity is generally a trade or business activity in which the partner does not materially participate or a rental activity. A partnership may have more than one activity. Each partner must apply the passive activity loss limitations on an activity by activity basis.

Individuals, estates and trusts must complete form FTB 3801, Passive Activity Loss Limitations, to figure the allowable passive losses, and form FTB 3801-CR, Passive Activity Credit Limitations, to figure the allowable passive credits. Corporations must complete form FTB 3802, Corporate Passive Activity Loss and Credit Limitations.

The amounts reported on line 1 and line 14 of Schedule K-1 (565) are passive activity income (loss) or credits from the trade or business of the partnership if you are a limited partner, or if you are a general partner who did not materially participate in the trade or business activities of the partnership. The amounts reported on line 2, line 3 and line 13b of Schedule K-1 (565) are from rental activities of the partnership and are passive activity income (loss) or credits to all partners. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The partnership will identify any of these qualified amounts on an attachment for line 2.

See the federal instructions for Schedule K-1 (1065), Passive Activity Limitations, for more information.

Specific Line Instructions

Enter the difference between federal and California amounts from column (c) on Schedule CA (540), California Adjustments — Residents, if you are a resident, or on Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents, if you are a nonresident. Also, if you are a nonresident, enter California source amounts from the Schedule K-1 (565), column (e), on your Schedule CA (540NR), column (E).

Note to Nonresident Partners: The specific line instructions below that instruct you to enter information from Schedule K-1 (565), column (d), on other forms, apply to resident partners. When the instructions make reference to column (d), nonresident partners should take information from columns (c), (d) and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.

A Income

Line 1 – Ordinary Income (Loss) from Trade or Business Activities

The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the partnership. For individual partners, generally, where you report this amount on Form 540 or Form 540NR depends on whether or not the amount is from an activity that is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the income on form FTB 3801. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

Note: If the partnership income is from activities both within and outside of California, the amount of income nonresidents or corporate partners must report on their income or franchise tax return is a function of the partnership's apportionment percentage and allocation of income for the specific partners. Reporting instructions are included in the information provided by the partnership. See also Title 18, Cal. Code Reg. Sections 17951-4 and 25137-1 for more information. Also see General Information F, Unitary Partners.

Line 2 – Income (Loss) from Rental Real Estate Activities

Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all partners. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the partnership will attach a schedule for line 2 to identify such amounts. You will have to report the California adjustment amount from column (c) on Schedule CA (540 or 540NR).

Use the following instructions to determine where to enter the line 2 amount.

- If you have a loss on line 2, column (d) (other than a qualified low-income housing project loss), enter the loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable. Your share of the loss may be eligible for the special $25,000 allowance for rental real estate losses. Get the instructions for form FTB 3801 for more information.

See the federal Specific Instructions for line 2, item 1 and item 2 for more information.

Note: If you are a qualified investor reporting a qualified low-income housing project loss, report the California adjustment amount from column (c) on Schedule CA (540 or 540NR).

- If you have only income on line 2, column (d), and no other passive losses, enter the California adjustment amount from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 2, column (d), income on the applicable line of form FTB 3801.

Line 3 – Income (Loss) from Other Rental Activities

The amount on line 3, column (d) is a passive activity amount for all partners.

- If line 3, column (d) is a loss, report the loss on the applicable line of form FTB 3801.
- If only income is reported on line 3, column (d), and you have no other passive losses, report the California adjustment from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 3 income on the applicable line of form FTB 3801.

Line 4a through Line 4e – Portfolio Income (Loss)

Portfolio income (loss) referred to as ''portfolio'' in these instructions is not subject to the passive activity limitations of IRC Section 469. Portfolio income includes interest, dividend and royalty income and gain or loss on the sale of property held for investment. If you have amounts on Schedule K-1 (565), line 4a through line 4e, report these amounts as follows:

- Line 4a, column (c) — Report on Schedule CA (540 or 540NR), line 8, column B or line 8, column C, whichever is applicable;

- Line 4b, column (c) — Report on Schedule CA (540 or 540NR), line 9, column B or line 9, column C, whichever is applicable;
- Line 4c, column (c) — Report on Schedule CA (540 or 540NR), line 17, column B or line 17, column C, whichever is applicable;
- Line 4d, column (d) — Report on Schedule D; and
- Line 4e, column (d) — Report on applicable schedule.

Caution: Generally, amounts reported on line 4d and line 4e are gains or losses attributable to the disposition of property held for investment and are, therefore, classified as portfolio income (loss). If, however, an amount reported on line 4d or line 4e, column (d) is a passive activity amount, the partnership will identify the amount.

The partnership uses line 4e, column (d), to report portfolio income other than interest, dividend, royalty and capital gain (loss) income. The partnership will attach a schedule to Schedule K-1 (565) to tell you what kind of portfolio income is reported on line 4e, column (d). An example of portfolio income that could be reported on line 4e, column (d), is from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

If the partnership has a residual interest in a REMIC, it will report on the schedule your share of REMIC taxable income (net loss). Report the adjustment amount from column (c) on Schedule CA (540 or 540NR). The partnership will also report your share of ''excess inclusion'' and your share of IRC Section 212 expenses. If you itemized your deductions on federal Schedule A (1040), you may deduct these IRC Section 212 expenses as a miscellaneous deduction subject to the 2% adjusted gross income limit and the high income taxpayer adjustment.

Line 5 – Guaranteed Payments to Partners

Generally, amounts on this line are not part of a passive activity. If there is an amount on Schedule K-1 (565), line 5, column (c), enter this amount on Schedule CA (540 or 540NR), line 21, column B or line 21, column C, whichever is applicable.

Line 6 – Net Gain (Loss) Under IRC Section 1231 (Other Than Due to Casualty or Theft)

If the amount on line 6 relates to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amount relates to a trade or business activity and you are a limited partner, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount to you, report it on Schedule D-1, Sales of Business Property, line 2, column (g) or column (h), whichever is applicable. You do not have to complete column (b) through column (f). Write ''From Schedule K-1 (565)'' across these columns.
- If a gain is reported on line 6, column (d), and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (h), and be sure to see ''Passive Loss Limitations'' on page 1 of the instructions for Schedule D-1.
- If a loss is reported on line 6, column (d), and it is a passive activity amount to you, see ''Passive Loss Limitations'' on page 1 of the instructions for Schedule D-1. You must use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

Line 7 – Other Income (Loss)

Amounts on this line are other items of income (loss) not included on line 1 through line 6.

The partnership should give you a description of the amount of your share for each of these items.

The instructions below tell you where to report line 7 items if the items are not passive activity amounts.

Report loss items that are passive activity amounts on form FTB 3801.

Report income or gain items that are passive activity amounts as instructed below. However, if in addition to this passive activity income or gain, you have passive activity losses from any other source, report the passive activity income or gain on form FTB 3801.

Line 7 items may include:

- Partnership gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies;
- Recoveries of bad debts, prior taxes and delinquency amounts (IRC Section 111). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable;
- Gains and losses from wagering (IRC Section 165(d)). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable;
- Any income, gain or (loss) to the partnership under IRC Section 751. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain or (loss). Report this amount on Schedule D-1, line 10; and
- Net gain or (loss) from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, column (b)(i), column (b)(ii) and column (c).

B Deductions

Line 8a & Line 8b – Charitable and Political Contributions

The partnership will give you a schedule that shows which contributions were subject to the 50%, 30% and 20% limitations. For further information, see the instructions for federal Form 1040.

If there is an amount on Schedule K-1 (565), line 8a or line 8b, column (c), enter this amount on Schedule CA (540 or 540NR), line 36.

Line 9 – Expense Deduction for Recovery Property

The maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you can claim for all sources is $10,000. The $10,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds $200,000. The partnership will give you information on your share of the IRC Section 179 deduction and of the cost of the partnership's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments – Individuals and get federal Publication 534, Depreciating Property Placed In Service Before 1987, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount, and there is an amount on Schedule K-1 (565), line 9, column (c), enter this amount on Schedule CA (540 or

540NR), line 21f, column B or line 21f, column C, whichever is applicable.

Refer to R&TC Sections 17252.5, 17265, 17266 and 17268 on how to figure the expense deduction for recovery property.

Line 10 – Deductions Related to Portfolio Income

Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and expenses from a REMIC). If you have an amount on Schedule K-1 (565), line 10, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, as applicable. If any of the line 10 amount should not be reported on Schedule CA (540 or 540NR), the partnership will have identified that amount for you.

Line 11 – Other Deductions

Amounts on this line are deductions not included on line 8a through line 10. If there is an amount on Schedule K-1 (565), line 11, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

C Investment Interest Expense

If the partnership paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

Line 12a – Interest Expense on Investment Debts

Enter the amount from column (d) on form FTB 3526 along with your investment interest expense from any other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

Line 12b(1) & Line 12b(2) – Investment Income and Investment Expenses

Use the column (d) amounts to determine the amount to enter on form FTB 3526, line 3.

Caution: The amounts shown on line 12b(1) and line 12b(2) include only investment income and expenses included on line 4 and line 10 of this Schedule K-1 (565). The partnership should attach a schedule that shows the amount of any investment income and expenses included in any other lines of this Schedule K-1 (565). Use these amounts, if any, to adjust line 12b(1) and line 12b(2) to determine your total investment income and total investment expenses from this partnership.

Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 3.

D Credits

If you have credits that are passive activity credits to you, you must complete form FTB 3801-CR (or form FTB 3802 for corporations) in addition to the credit forms referenced. Get the instructions for form FTB 3801-CR (or form FTB 3802) for more information.

Line 13a(1) – Withholding on Partnership Allocated to All Partners

If taxes were withheld from payments to the partnership by another entity, this withholding is allocated to all partners according to partnership interest. Your share is entered on line 13a(1).

Line 13a(2) – Partnership Withholding on Nonresident Partners

If taxes were withheld-at-source on you as a domestic or foreign nonresident partner, the amount of the withholding is entered on line 13a(2).

Line 13a(3) – Total Withholding

The amounts (if any) on line 13a(1) and line 13a(2) are added together to get the total amount of withholding credit you have for the partnership year. If taxes were withheld by the partnership or if there is a pass-through withholding credit from another entity, the partnership must provide you a completed Form 592-B, Nonresident Withholding Tax Statement. You must attach Form 592-B to the front of your California income or franchise tax return to claim the amount withheld. The amount shown on the Form 592-B should be claimed on Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, line 47 or on Form 100, California Corporation Franchise or Income Tax Return, line 32. Schedule K-1 (565) may **not** be used to claim this withholding credit. If the partnership is not on a calendar year, the amount on line 13a(3) may not match the amount on Form 592-B.

Line 13b – Low-Income Housing Credit

Your share of the partnership's low-income housing credit is shown on line 13b, column (d). Any allowable credit is entered on form FTB 3521, Low-Income Housing Credit. The passive activity credit limitations of IRC Section 469, however, may limit the amount of credit you take. Credits from passive activities are generally limited to tax attributable to passive activities.

Caution: You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under IRC Section 502 of the Tax Reform Act of 1986.

Line 13c – Other Credits Related to Rental Real Estate Activities

If applicable, the partnership will use this line, through an attached schedule, to give you the information you need to compute credits related to rental real estate activities other than the low-income housing credit.

Line 13d – Credits Related to Other Rental Activities

If applicable, the partnership will use this line, through an attached schedule, to give you the information you need to compute credits related to rental activities other than rental real estate activities.

Line 14 – Other Credits

If applicable, the partnership will use this line, through an attached schedule, to give you the information you need to compute credits related to a trade or business activity.

Examples of credits that may be reported on line 14 (depending on the type of activity they relate to) include:

- Enterprise zone hiring and sales or use tax credit — get form FTB 3805Z.
- Orphan drug credit carryover — get form FTB 3540.
- Employer child care program/contribution credit — get form FTB 3501.
- Program area hiring and sales or use tax credit — get form FTB 3805Z.
- Los Angeles revitalization zone (LARZ) hiring and sales or use tax credit — get form FTB 3806.
- Research credit — get form FTB 3523.
- Commercial solar electric system credit carryover — get form FTB 3540.
- Prison inmate labor credit — get form FTB 3507.

- Low-emission vehicles credit carryover — get form FTB 3540;
- Recycling equipment credit carryover — get form FTB 3540;
- Manufacturers' investment credit — get form FTB 3535;
- Local agency military base recovery area (LAMBRA) credit — get form FTB 3807;
- Salmon and steelhead trout habitat restoration credit — contact the California Department of Fish and Game. Use credit code 200;
- Enhanced oil recovery credit — get form FTB 3546;
- Donated agricultural products transportation credit — get form FTB 3547; and
- Disabled access credit — get form FTB 3548.

Note: The passive activity limitations of IRC Section 469 may limit the amount of credits on line 13b, line 13c, line 13d and line 14. Line 13b, line 13c and line 13d credits are related to the rental activities of the partnership and are passive activity credits to all partners. Line 14 credits are related to the trade or business activities of the partnership, and some are passive activity credits to all limited partners. In general, credits from passive activities are limited to tax attributable to passive activities. Credits on line 14 that may be limited under the passive activity credit rules are the:

- Orphan drug credit carryover;
- Research credit; and
- Low-income housing credit.

You may be able to use line 13d credits against tax on other income. The amount of the useable credits is limited to the deduction equivalent up to $25,000 (net of losses from rental real estate activities deductible against up to $25,000 of other income).

The partnership has included on line 14 your distributive share of net income taxes paid to other states by the partnership. Subject to the limitations of R&TC Section 18006, partners may claim a credit against their individual tax for net income taxes paid by the partnership to another state. The amount of tax paid is required to be supported by a copy of the return filed with the other state and evidence of the payment of the tax. Get Schedule S, Other State Tax Credit, for more information.

E Adjustments and Tax Preference Items

Line 15a through Line 15e column (d) – Use the information reported on line 15a through line 15e, column (d) as well as your adjustments and tax preference items from other sources to complete Schedule P (540), Alternative Minimum Tax and Credit Limitations — Residents; Schedule P (540NR), Alternative Minimum Tax and Credit Limitations — Nonresidents or Part Year Residents; Schedule P (541), Alternative Minimum Tax and Credit Limitations — Fiduciaries; or Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations. For additional information, see the federal instructions for Schedule K-1 (1065), Adjustments and Tax Preference Items, line 16a through line 16e.

F Other

Line 16 through Line 19 – See the federal instructions for Schedule K-1 (1065), Other, line 18 through line 21. The partnership should give you a description and the amount of your share for each item applicable to California, in this category.

Line 22 – The partnership will provide supplemental information required to be reported to you on this line.

The partnership may have provided an amount showing your proportionate interest in the partnership's aggregate gross receipts, less returns and allowances on Schedule K-1 (565), line 22. Legislation enacted in 1996 allows a qualified taxpayer to exclude income, positive and negative adjustments and preference items attributable to any trade or business from alternative minimum taxable income. A ''qualified taxpayer'' is defined as an individual, estate or trust that:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has gross receipts, less returns and allowances, of less than $1,000,000 during the taxable year from all trades or businesses that the taxpayer is an owner or has an ownership interest (''aggregate gross receipts''). In the case of an ownership interest, you should include only your proportional share of gross receipts of any trade or business from a partnership, S corporation, regulated investment company (RIC), real estate investment trust (REIT) or real estate mortgage investment conduit (REMIC).

You need to add your share of the gross receipts from this partnership to your gross receipts from all other trades or businesses in which you hold an interest to determine if you are a qualified taxpayer.

For purposes of R&TC Section 17062(b)(4), ''gross receipts'' means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income (within the meaning of subdivision (d) of R&TC Section 25120). ''Proportionate interest'' includes an interest in a pass-through entity. See R&TC Section 17062 for more information.

G Table 1

For nonunitary partners, income data contained in Table 1, Part A (income from real and tangible property) should already be reflected in the appropriate line of column (e) and is merely informational. Unitary partners must reflect such income as from a California source.

The income data contained in Table 1, Part B is not reflected in column (e), because the source of such income must be determined at the partner level. The partner must make a determination whether the nonbusiness intangible income item is from a California source. For further information see General Information, Section E.

H Table 2

If the partner and partnership are engaged in a single unitary business, the partner's share of the partnership's business income is entered in Table 2, Part A. The partner will then add that income to its own business income and apportion the combined business income.

The partner's share of the partnership's payroll, property and sales factors is in Table 2, Part B. The business income in Table 2, Part A is combined with the partner's other business income from the unitary business. The apportionment numerator and denominator data are added to the appropriate numerator and denominator of the partner's payroll, property, and sales factors. For further information see General Information Section E.

How to Get California Tax Information

Regular Toll-Free Phone Service

Our regular toll-free phone service is available from 7:00 a.m. until 8:00 p.m. Monday through Friday from January 2 through April 15, 1997. The best times to call are between 7:00 and 10:00 in the morning and between 6:00 and 8:00 in the evening. Service is also available on Saturdays, April 5 and April 12, from 8:00 a.m. until 5:00 p.m. After April 15, service is available Monday through Friday, between 8:00 a.m. and 5:00 p.m.

From within the United States.	1-800-852-5711
From outside the United States	1-916-845-6500 (not toll-free)
From hearing impaired with TDD . . .	1-800-822-6268

For federal tax questions, call the IRS at 1-800-829-1040.

Bilingual Assistance

Para obtener servicio bilingüe de información sobre impuestos o formularios, al número de teléfono (anotado arriba) que le corresponde.

Letters

We can serve you quickly if you call us for information to complete your California tax return. However, you may want to write to us if you are replying to a notice we sent you, or to get a written reply.

If you write to us, be sure to include your FEIN and your daytime and evening telephone numbers with your letter. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942840
SACRAMENTO CA 94240-0040

We will acknowledge receipt of your letter within six to eight weeks. In some cases, we may need to call you for additional information.

How to Get Tax Forms

By Internet – If you have Internet access, you may download, view and print California tax forms and publications. Our Internet address is:

http://www.ftb.ca.gov

By phone – Call our toll-free phone numbers listed under ''Regular Toll-Free Phone Service'' to get the California tax forms you need.

By mail – We will send you two copies of each tax form and one copy of each set of instructions you order. Please allow two weeks to receive your order. Address your envelope to:

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

In person – Most libraries, post offices and banks provide free California tax booklets during the filing season. Many libraries and some quick print businesses have forms and schedules for you to photocopy (you may have to pay a nominal fee). Note that employees at libraries, post offices, banks and quick print businesses cannot provide tax information or assistance.

Your Rights As A Taxpayer

Our goal at the Franchise Tax Board is to make certain that your rights are protected, so that you will have the highest confidence in the integrity, efficiency and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program and how you can request written advice from the Franchise Tax Board on whether a particular transaction is taxable. You can order FTB Pub. 4058 by writing or calling the Franchise Tax Board using the address or telephone number on this page.